

A CONDOMINIUM RESIDENT'S PERSPECTIVE

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(This article is from the perspective of a condominium resident who believes in Reserve Studies and fully funding the recommendations put forth in the study done by an independent professional.)

As a resident and, recently, past Board member of the condominium association where I reside, my hopes for a better community were realized one day when an article appeared in our local newspaper telling of legislation requiring all Condominiums to have a Reserve Study done. The article talked about condominium associations that did not have good financial planning and in some cases concealed bad fiscal planning from prospective buyers allowing the purchaser to think their investment in the community would be a good one. Additionally, the article outlined many of the problems I was faced with as my community's Board Treasurer, the fact that many condominium association did not have any financial planning, or money set aside to pay for expensive long-term maintenance, such as repaving a parking lot, replacing a roof, rebuilding rotting walkways, or dealing with all the common and limited common areas of the community. The proposed legislation scheduled to become law would require a Reserve Study to be done.

While the article talked about protecting prospective buyers, it also talked about the residents' need to pay attention to the estimates of how much money an association requires on a monthly basis and what the association must set aside to pay for expensive long-term maintenance by having an independent professional Reserve Study done.

So, I asked myself, what does a Reserve Study look like and who are the professionals doing them? What is this Reserve Study and what could it do for me, first and foremost as a resident, and how would it help me be a better member of the Board of Directors?

Having spent thirty five years of my life in the business world, I know without adequate financial planning, projects fail, or simply do not get done and in the case of a multi-family community, the same business model exists. The difference being, the value of my home is at stake. Once associations realize the true cost of scrimping on savings and adequately identifying the monthly costs to service, maintain, repair and replace all the elements of the property, then unnecessary assessments can become a thing of the past.

During the summer of 2007 while I was still Board Treasurer and Point-Person for our remediation project, the same time that 6215 became law, the seminars provided by CAI were assisting me in getting the other Board Members to understand the need to be compliant with the new law and, most importantly, the fact that we would finally have a document that would identify the elements of our community and become the basis for an appropriate business model.

Due to the fact that my community never had a Reserve Study done before, the Board decided to inform the entire association that we needed to be compliant with the law and that a Reserve Study would be done shortly.

Once the Reserve Study was completed the Board copied all ninety owners with a complete copy, hoping that each resident would take the time to read it, ask questions and prepare for the fact that the Board would ask the residents to use the study as a business model for the community financial planning and anticipate an increase in homeowners dues to meet the demands of the community's financial needs.

The Reserve Study produced comments from a segment of the community that said this is ridiculous to think about 30 years in the future. "Why should I pay for something that needs to be replaced ten years from now when, more than likely, I'll be dead". "I can't afford the increase in dues to pay for any of this". "One of the reasons I bought the condo, to begin with, was the fact that the HOA Dues were low and I could afford them". "Doesn't matter if a little paint is peeling off here and there". "Doesn't matter if the cost of gas has gone up, I don't want my dues to increase", and so on...

The realization for good financial planning was outlined in the 30 year plan by our Reserve Study. Since the community had never adjusted the homeowners dues after the contractor was gone in anticipation of real costs to service, repair, maintain and replace on a monthly basis, let alone consider the financial needs for the future, the "Reserve Study" became the wake-up-call that living in condominium association was different than having your own house on your own land. No longer could an individual owner ignore their responsibilities of community ownership, or so I thought.

Ultimately the community adopted a budget that did not fully fund the suggested financial needs by the Reserve Study. The current Board did not give the community a choice to fully fund according the specification of the Reserve Study, instead the Board gave the community two choices to ratify a budget, with omissions, that will guarantee assessments, or decline any change from the previous budget by not ratifying their budget proposal that will compound the fact of the need to assess for any expenditures. Certainly the community is not prepared for any emergencies, or significant losses not covered by insurance.

Even though the Board I served on was not successful in getting the community to fully fund the reserves as recommended by the Reserve Study, it was my belief then, as it is now, that all condo associations should be compliant with the recommendations of their Reserve Studies, performed by an independent professional. If we as residents of multi-family community's do not fully recognize the need to account for all the elements of the property, on an annual basis,

through responsible financial planning, for today and tomorrow, then we must be prepared to pay for constant and large assessments.

Like any good business budgeting model, a Reserve Study, is a best estimate, done by professionals, to encourage condo associations to succeed financially and circumvent loss of investment and protect the elements of the property through good financial planning. Sadly, some residents, that bought in because homeowners dues were low, while the contractor was still in charge, are now being faced with the reality of what it really costs to live in their multi-family community.

I grew up in Europe, living in a multi-family community. We understood the need to pay homeowners dues that would cover the, actual, cost of monthly services and repairs, but would also fund the future need to maintain, repair and replace. Sadly the history of funding multi-family living in the state of Washington is in its infancy and many of the current homeowners who understand the need to fund according to their Reserve Study will be faced with ongoing assessments and, perhaps, the loss of their investment.

Using the Reserve Study as a business model, it is easy for me to understand the need to service, maintain, repair and replace at appropriate times. Obviously there is a cost in accounting for each and every element of the property on a monthly basis. However, with a well planned budget that reflects true operating costs and a well funded reserve account, many pit-falls of under-funding can be minimized. My reasons for condominium association compliancy are simple: less stress for all resident/owners by avoiding unnecessary assessments and loss of property values.

Thank goodness for the law that requires all condo associations to get a Reserve Study done. My hope is, the legislature will make it a requirement to fully fund as an adendum to the 6215 law passed on June 12. 2008.