

# SENATE BILL REPORT

## SHB 2541

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As Reported By Senate Committee On:  
Consumer Protection & Housing, February 21, 2008

**Title:** An act relating to reserve accounts and studies for condominium associations.

**Brief Description:** Concerning reserve accounts and studies for condominium associations.

**Sponsors:** House Committee on Judiciary (originally sponsored by Representatives Kelley, McCune, Springer, Williams, Miloscia and Campbell).

**Brief History:** Passed House: 2/13/08, 95-1.

**Committee Activity:** Consumer Protection & Housing: 2/21/08 [DP, w/oRec].

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### SENATE COMMITTEE ON CONSUMER PROTECTION & HOUSING

**Majority Report:** Do pass.

Signed by Senators Weinstein, Chair; Kauffman, Vice Chair; Delvin, Jacobsen, Kilmer, McCaslin and Tom.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Honeyford, Ranking Minority Member.

**Staff:** Vanessa Firnhaber-Baker (786-7471)

**Background:** Reserve funds are maintained by condominium associations to pay for major repair or replacement of the condominium community's common elements. Common elements may include parts of the community like lobbies, roofs, parking lots, or recreational areas. Reserve studies are used to determine when common elements will need to be replaced or repaired and the associated costs. An adequate amount of reserve funds may be determined through a reserve study.

Depending on a condominium community's inception date, the community is either governed by the Condominium Act or the Horizontal Properties Regimes Act. Neither statute requires that condominium associations maintain levels of reserve funding or conduct reserve studies. However, condominium associations have the authority to adopt and amend budgets and collect assessments from unit owners. Some condominiums also may have declarations that require the association to maintain adequate reserve funding and/or conduct reserve studies.

Condominium associations must prepare an annual financial statement under general accepted accounting standards. Those statements may require cost projections for future major repair and replacement of common elements. Also, condominium resale certificates are required to

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contain a statement of the amount of any reserves for repair and replacement and the portion of those reserves currently designated for any specific project.

**Summary of Bill:** Authorizes and requires associations to conduct an initial reserve study by a reserve study professional, updated annually with a visual site inspection every three years, unless doing so would impose an unreasonable hardship.

Requires a reserve study to include:

- a reserve component list;
- the date of the study;
- the level of study performed;
- the balance of the association's reserve account balance;
- the percentage of the fully funded balance that the reserve account is funded;
- special assessments already implemented or planned;
- interest and inflation assumptions;
- current and recommended reserve account contribution rates; and
- the projected reserve account balance for a minimum of 30 years, and a funding plan to pay for projected expenses without reliance on future unplanned special assessments.

Authorizes and encourages associations to establish reserve accounts independent of the association's annual operating budget, administered by the board of directors, to fund the maintenance, repair, and replacement of common elements.

Bars the award of monetary damages or any other liability against the association, the officers, or board of directors, or those who may have provided advice or assistance to the association for failure to: (1) establish a reserve account; (2) have a reserve study prepared or updated; or (3) make reserve disclosures.

Requires a copy of the current reserve study, or disclosure if the association does not have a reserve study, to be included in the public offering statement or resale certificate.

Defines: contribution rate; fully funded balance; replacement cost; reserve component; reserve study professional; and useful life.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on Substitute Bill:** PRO: This bill serves an important need because it provides disclosures to current owners and prospective buyers on the capital improvements a condominium will likely need in the coming years. A lot of condominiums are aging and need substantial improvements to the components. If the association does not have adequate reserves, condominium owners get hit with unexpected special assessments. It is impossible for a prospective buyer of a condominium unit to determine whether the condominium will need improvements to the components without a professional reserve study.

**Persons Testifying:** PRO: Kathryn Hedrick, Community Associations Institute; Kellene Richards, citizen and general contractor.