

SENATE BILL REPORT

SB 6215

As Amended in House, March 4, 2008

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

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

Sponsors: Senators Tom, Honeyford and McCaslin.

Brief History:

Committee Activity: Consumer Protection & Housing: 1/18/08 [DP].

Passed Senate: 2/11/08, 45-2.

SENATE COMMITTEE ON CONSUMER PROTECTION & HOUSING

Majority Report: Do pass.

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

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 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.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Summary of Bill: Condominium associations (association) are encouraged to establish a reserve fund account to pay for major repairs or replacement of common elements. An association may withdraw funds from the reserve account for unforeseen expenses, as long as notice is given to unit owners, and a repayment schedule is set up. Associations must conduct and update reserve studies annually. The initial study and the study done each third-year thereafter must be conducted by a reserve study professional. Reserve studies must include detailed information on projected expenditures and current reserve account information. If an association has not conducted a reserve study prepared by a professional in the past three years, one may be demanded if 20 percent or more of the unit owners agree. An association may refuse the demand if conducting the study would impose an unreasonable economic hardship on the association. An unreasonable hardship exists if preparing the study would cost more than 10 percent of the association's annual budget. Public offering statements and seller's disclosures must include either: (1) a copy of the association's current reserve study; or (2) a disclosure informing the buyer that there is no current reserve study and the possible risks that the buyer faces because of the lack of a current study.

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: PRO: Reserve studies are the only way for a condominium association to determine whether its reserve funds are adequate. If an association has inadequate reserves, unit owners may face unexpected and unaffordable special assessments. Unexpected special assessments can be disastrous for unit owners' finances. Buyers need to know the financial condition of the condominium association. This bill ensures that property values don't go down.

Persons Testifying: PRO: Jim Talaga, Association Reserves; Jeff Rodgers, Northgate Plaza Hometown; Alan Crandall, Community Association Bank; Brian McLean, Community Association Institute.

House Amendment(s): Terms and definitions are revised for clarity. A provision stating that the purpose of a reserve account is to fund components that are in need of repair or replacement within 30 years is added.