

# RESERVE STUDY UPDATE



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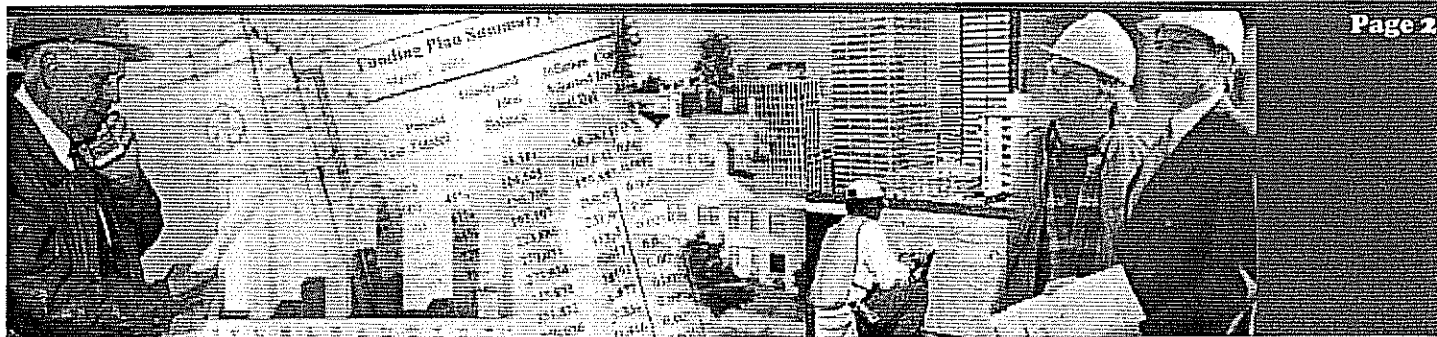
## **SENATE BILL 6215 - CONCERNING RESERVE ACCOUNTS AND STUDIES FOR CONDOMINIUM ASSOCIATIONS SIGNED ON MARCH 21, 2008**

### **THE NEW LAW:**

- Encourages associations to establish a reserve account to fund major maintenance, repair, and replacement of common elements, including limited common elements that will require major maintenance, repair, or replacement within thirty years. The reserve account shall be established in the name of the association. The board of directors is responsible for administering the reserve account.
- Provides that associations shall prepare and update a reserve study. The initial reserve study must be based upon a visual site inspection conducted by a reserve study professional.
- Provides that associations shall update the reserve study annually. At least every three years, an updated reserve study must be prepared and based upon a visual site inspection conducted by a reserve study professional.

### **DEFINITIONS:**

<b>CONTRIBUTION RATE:</b>	The amount contributed to the reserve account so that the association will have cash reserves to pay major maintenance, repair, or replacement costs without the need of a special assessment.
<b>EFFECTIVE AGE:</b>	The difference between useful life and remaining useful life.
<b>FULLY FUNDED BALANCE:</b>	The value of the deteriorated portion of all the reserve components. The fully funded balance for each reserve component is calculated by multiplying the current replacement cost of that reserve component by its effective age, then dividing the result by that reserve component's useful life. The sum total of all reserve components' fully funded balances in the association's fully funded balance.
<b>REMAINING USEFUL LIFE:</b>	The estimated time, in years, that a reserve component can be expected to continue to serve its intended function.
<b>REPLACEMENT COST:</b>	The current cost of replacing, repairing, or restoring a reserve component to its original functional condition.
<b>RESERVE COMPONENTS:</b>	Common elements whose cost of maintenance, repair, or replacement is infrequent, significant, and impractical to include in an annual budget.
<b>RESERVE STUDY PROFESSIONAL:</b>	An independent person suitably qualified by knowledge, skill, experience, training, or education to prepare a reserve study in accordance with sections 1 and 2 of this act.



### WHAT NEEDS TO BE INCLUDED IN THE RESERVE STUDY?

1. A reserve component list, including quantities and estimates for useful life of each reserve component, and current repair and replacement cost for each component/
2. The date of the study and a statement that the study meets the requirements of the new law.
3. The level of study performed:
  - Level 1: Full study funding analysis and plan
  - Level 2: Update with visual inspection
  - Level 3: Update with no visual inspection
4. Association's reserve account balance.
5. Percentage of the fully funded balance that the reserve account is funded.
6. Special assessments already implemented or planned.
7. Interest and inflation assumptions.
8. Current reserve account contribution rate.
9. Recommended reserve account contribution rate.
10. Projected reserve account balance for 30 years and a funding plan to pay for projected costs from those reserves without reliance on future unplanned special assessments.
11. Whether the reserve study was prepared with the assistance of a reserve study professional.
12. The following disclosure: *"This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair, or replacement of a reserve component."*

### WHAT NEEDS TO BE INCLUDED IN THE PUBLIC OFFERING STATEMENT?

If the association does not have a reserve study that has been prepared in accordance with the sections 1 and 2 of this act or its governing documents, the following disclosure:

*"This association does not have a current reserve study. The lack of a current reserve study poses certain risks to you, the purchaser. Insufficient reserves may, under some circumstances, require you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair, or replacement of a common element."*