



PURPOSE OF A RESERVE STUDY

The purpose of a Reserve Study is to recommend a reasonable annual reserve Contribution Rate made by an association to its reserve account. Reserve accounts are established to fund major maintenance, repair, and replacement of common elements, including limited common elements, expected to be necessary within the next thirty years. A Reserve Study is intended to project adequate funds for the replacement or major repair of any significant component of the property as it becomes necessary without relying on special assessments. It is a budget planning tool which identifies the current status of the reserve account and a stable and equitable Funding Plan to offset the anticipated future major shared expenditures.

Each reserve component is evaluated to determine the current condition, the remaining useful life, and the estimated replacement cost. This information is combined into a spreadsheet to determine funding requirements and establish the annual contribution rate needed to minimize special assessments. All costs and annual reserve balances are shown in constant dollars, and with adjustments for annual inflation and interest earned. Ideally, an even level of contributions is established that maintains a positive balance in the reserve account over the timeline the study examines.

A Reserve Study also calculates a “Fully Funded Balance”. Fully Funded Balance is the sum total of the reserve components’ depreciated value using a straight line depreciation method. To calculate each component’s depreciated value:

$$\text{Depreciated Value} = \text{Current Replacement Cost} \times \frac{\text{Effective Age}}{\text{Expected Useful Life}}$$

When assessed with the current reserve balance, the Fully Funded Balance yields a Percent Fully Funded. This acts as a measuring tool to assess an association’s ability to absorb unplanned expenses. These expenses could be emergency repairs not covered by insurance, or expenses that differ from the existing Reserve Study in terms of timing or cost.

The Fully Funded Balance is neither the present replacement cost of all of the Association’s reserve components, nor does it have a mathematical relationship to the recommended reserve contribution funding plans.

There are three levels of Reserve Studies:

- The first level, an initial Reserve Study, must be based upon a visual site inspection conducted by a Reserve Study Professional. This is also known as a full **Level 1** Reserve Study.
- 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. This is also known as a **Level 2** Update with Site Visit.
- Every year, the Association must update the Reserve Study. Except as noted above, the annual updates do not require a site visit. This is also known as a **Level 3** Update without Site Visit.



Government Requirements for a Reserve Study

The content of a Reserve Study for a condominium is regulated by the Washington State government (RCW 64.34.382 §2). The required content is:

- a) 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 one of these reserve components is not included in the Reserve Study, the study should provide commentary explaining the basis for its exclusion. The study must also include quantities and estimates for useful life of each reserve component, remaining useful life of each reserve component, and current repair and replacement cost for each component;
- b) The date of the study and a statement that the study meets the requirements of this section;
- c) The following level of reserve study performed: (i) Level I: Full reserve study funding analysis and plan; (ii) Level II: Update with visual site inspection; or (iii) Level III: Update with no visual site inspection;
- d) The association's reserve account balance;
- e) The percentage of the fully funded balance that the reserve account is funded;
- f) Special assessments already implemented or planned;
- g) Interest and inflation assumptions;
- h) Current reserve account contribution rate;
- i) 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, and a contribution rate recommended by a reserve study professional;
- j) A projected reserve account balance for thirty years and a funding plan to pay for projected costs from those reserves without reliance on future unplanned special assessments; and
- k) A statement on whether the reserve study was prepared with the assistance of a reserve study professional.

The full Washington Condominium Act may be reviewed on the Washington State Legislature's website at <http://apps.leg.wa.gov/rcw/default.aspx?cite=64.34> and parts 64.34.380 to 64.34.392 for the Reserve Study Amendment's portions. In April 2011, the Act was amended to change the required content within the Reserve Studies, add reporting of the Reserve Study results as part of the budget summary to owners, and extend the Reserve Study requirement to homeowners' associations with significant assets. For questions regarding the Act, we recommend contacting an attorney familiar with condominiums' legal requirements.



Limitations and Assumptions of a Reserve Study

A Reserve Study is not a report on the condition of the buildings maintained by the Association, nor a detailed report of repairs necessary to the building. It is also not an investigation into or comment on the quality of construction of the reserve components, or whether the construction complies with the building code or the requirements of the Washington Condominium Act.

The observations made by Reserve Consultants LLC are limited to a visual inspection of a sample of the reserve components. Unless informed otherwise, our assumption is that the components are constructed in substantial compliance with the building code and to industry standards, and that it will receive ordinary and reasonable maintenance and repair by the Association. These assumptions include that most reserve components will achieve their normal useful lives for similar components in the Pacific Northwest, and that they will be replaced when necessary to prevent damage to other reserve components.

Our reserve studies assume that the Association will be maintained to keep a good level of appearance, with a special emphasis on retaining the original appearance of the association to the greatest possible extent. The analysis also assumes that the association will replace materials as they are required with good quality materials, installed by qualified, licensed, contractors. We further assume that the association will experience the full typical useful life for the new materials installed.

The long term nature of a reserve study requires that certain assumptions and predictions be made about future events. Since there can be no guarantee that these future events will occur as assumed, this analysis must be viewed in light of the circumstances under which it was conducted. Reasonable effort has been made to ensure that the conclusions of this report are based on reliable information and sound reasoning.

Reserve studies should be updated annually with actual repair costs, reserve balances, etc. Every three years the study should be updated with a site inspection and professional review. Regular updating will allow changes based on actual occurrences and adjustments for the cost of repairs to be incorporated into the annual reserve contributions. This will allow any savings or additional costs to be properly allocated among unit owners.