



Why Does The Association Need A Reserve Study and Fund

2010 Reserve Analysis Statute

In the spring of 2010, the Utah Condominium Ownership Act (UCA 57-8-7.5) was amended and directs condominium and PUD associations to conduct routine “**reserve analysis**” studies to determine the need for a reserve fund to insure that the appropriate amount of monies are available to cover the cost of foreseeable repairs, replacements and restorations to an association’s common areas and facilities (excluding any costs that can be reasonably funded from an association’s operating budget). Section 57-8-7.5 further requires management committees to cause such a reserve analysis to be conducted no less frequently than every five (5) years and review, update, previously conducted analyses every three years.

57-8a-211. Reserve analysis -- Reserve fund.

- (1) As used in this section, "reserve analysis" means an analysis to determine:
 - (a) the need for a reserve fund to accumulate money to cover the cost of repairing, replacing, and restoring common areas that have a useful life of three years or more, but excluding any cost that can reasonably be funded from the association's general budget or from other association funds; and
 - (b) the appropriate amount of any reserve fund.
- (2) Except as otherwise provided in the governing documents, a board shall:
 - (a) (i) subject to Subsection (2)(a)(ii), cause a reserve analysis to be conducted no less frequently than every five years; and
 - (ii) if no reserve analysis has been conducted since March 1, 2008, cause a reserve analysis to be conducted before July 1, 2012; and
 - (b) review and, if necessary, update a previously conducted reserve analysis no less frequently than every three or four years.
- (3) The board may conduct a reserve analysis itself or may engage a reliable person or organization, as determined by the board, to conduct the reserve analysis.
- (4) (a) A board may not use money in a reserve fund:
 - (i) for daily maintenance expenses, unless a majority of association members vote to approve the use of reserve fund money for that purpose; or
 - (ii) for any purpose other than the purpose for which the reserve fund was established.
- (b) A board shall maintain a reserve fund separate from other association funds upon approval of the majority of the homeowners.
- (c) This Subsection (4) may not be construed to limit a board from prudently investing money in a reserve fund, subject to any investment constraints imposed by the governing documents or the majority of the homeowners.

What This Means

By law the association must complete this comprehensive study and make certain that they (after approval of the majority of the homeowners) are funding the future costs of all our hard assets. The association has done this. By law the reserve funding issue is an annual meeting agenda item. The owners present in person or by proxy vote each year whether or not to fund the reserve account for the coming year.

The purpose of funding the reserve analysis fund not only makes funds available when needed down the road to repair or replace major hard asset items such as roofing, building siding, concrete etc., it also reduces the need for large individual homeowner assessments to make the necessary repairs. Paying a little each month over time is much less of a hardship for individual homeowners than a large assessment when funds are needed.

To be clear on the matter, the homeowners control whether or not to fund the reserve not the management committee. The vote will take place each annual meeting.

However, a vote NOT to fund the reserve is an automatic vote to approve and assess each homeowner the entire cost of the repair and/or replacement of any major hard asset item such as roofing, major painting projects needed, cement replacement etc.

Put this in perspective, the current approximate cost to replace the roofing on each of your 10 buildings is approximately \$25,000.00 per building. This represents an assessment of about \$650.00 per homeowner. You have 10 buildings. All the buildings were built within 3 years of each other which means that when it comes to replace roofing all of the buildings will become due for replacement within a 3 year period. Not saving now while there is still years of life left in the roofing will result in several immediately large assessments over a three or four year period at the end of the roofing life. The same will hold true when it comes to replacing cement which is also a huge replacement cost.

Important Note

Not funding an active reserve analysis fund will ultimately stall home sales in the community. It will not only affect the marketability of your homes, it will reduce the home value in real dollars as well. Perspective home buyers will not be able to obtain mortgage financing if the association cannot demonstrate that it is actively funding a savings reserve account. Perspective home buyers will also shy away from the community as the years go by because of the threat of looming large assessments to pay for unfunded major asset replacement items.