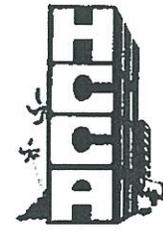


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**Hawaii Council of Associations
of Apartment Owners**
DBA: Hawaii Council of Community Associations
 1050 Bishop Street, #366, Honolulu, Hawaii 96813



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March 21, 2017

Hon. Ron Menor, Chair
Honolulu City Council

Re: Testimony (with comments) in re Bill 17 Relating to Building Inspections
Hearing: Wednesday, March 22, 2017, 9 a.m., City Council Chambers

Chair Menor and Members of the City Council:

I am Jane Sugimura, President of the Hawaii Council of Associations of Apartment Owners (HCAAO dba HCCA). This organization represents the interests of condominium and community association members.

HCCA agrees with the intent of the proposed ordinance in that it addresses the need to keep the buildings safe for residents and others. However, we just learned about this proposed bill a few weeks ago and some of our members have expressed concerns about a new mandatory government requirement since most of them are diligent about maintaining and repairing their buildings. At the same time, we understand that some associations are not as diligent and may require the City's oversight to prevent injury to residents and others as would happen through implementation of this bill.

Hawaii Revised Statutes at 514B-148 (copy attached) requires all condominiums to prepare a reserve study that provides information about future repair and maintenance and the proposed cost of such repairs and maintenance. This reserve study tells each condominium how much has to be set aside to do the repairs and maintenance on the report. For examples, the items on this report may include replacement of roof, exterior painting, spall repairs, parking deck repairs/coating, parking lot-paving, elevator renovations, replace pool furniture, i.e., usually "big-ticket" items that don't have to be done every year but the buildings have to plan for those repairs so that they can set aside funds on a monthly basis from the maintenance fees that they collect from the unit owners. The reserve study is a tool that is used by boards to manage their budget and their maintenance and repair schedule. The reserve study is reviewed constantly and updated periodically since the report is only an estimate based on the useful life of a particular repair or maintenance item and the estimated cost to do that repair in the future. Since the economic factors that can affect future costs are constantly changing, a board needs to be diligent and work with

their contractors and engineers to ensure that the report remains current and relevant. For Boards who are actively doing this – and boards are supposed to be addressing these issues at every board meeting – this bill will be burdensome since they will have to hire an engineer to prepare and submit the report contemplated by the bill.

Although we have had an opportunity to review the bill, we have not had time to discuss its ramifications with our constituents and therefore we would ask the Council to defer taking action for a reasonable time to allow us time to do that. HCCA would like to participate in the process and we believe that our organization and its members can be a valuable resource to the City in finalizing this bill. We also have relationships with consultants in the insurance (Sue Savio of Insurance Associates, who insures many of the condos and community associations in the State), construction and property management (representatives of Hawaiiana Management and Associa Hawaii serve on HCCA's Board) industries, who have expressed interest to me that they would also like to participate in this process and to work with the City to finalize this bill.

Thank you for allowing me to testify on this very important matter.


Jane Sugimura
President

Enclosure

[\$514B-148] Association fiscal matters; budgets and reserves. (a)

The budget required under section 514B-144(a) shall include at least the following:

- (1) The estimated revenues and operating expenses of the association;
- (2) Information as to whether the budget has been prepared on a cash or accrual basis;
- (3) The total replacement reserves of the association as of the date of the budget;
- (4) The estimated replacement reserves the association will require to maintain the property based on a reserve study performed by the association;
- (5) A general explanation of how the estimated replacement reserves are computed;
- (6) The amount the association must collect for the fiscal year to fund the estimated replacement reserves; and
- (7) Information as to whether the amount the association must collect for the fiscal year to fund the estimated replacement reserves was calculated using a per cent funded or cash flow plan. The method or plan shall not circumvent the estimated replacement reserves amount determined by the reserve study pursuant to paragraph (4).

(b) The association shall assess the unit owners to either fund a minimum of fifty per cent of the estimated replacement reserves or fund one hundred per cent of the estimated replacement reserves when using a cash flow plan; provided that a new association need not collect estimated replacement reserves until the fiscal year which begins after the association's first annual meeting. For each fiscal year, the association shall collect the amount assessed to fund the estimated replacement for that fiscal year reserves, as determined by the association's plan.

(c) The association shall compute the estimated replacement reserves by a formula that is based on the estimated life and the estimated capital expenditure or major maintenance required for each part of the property. The estimated replacement reserves shall include:

(1) Adjustments for revenues which will be received and expenditures which will be made before the beginning of the fiscal year to which the budget relates; and

(2) Separate, designated reserves for each part of the property for which capital expenditures or major maintenance will exceed \$10,000. Parts of the property for which capital expenditures or major maintenance will not exceed \$10,000 may be aggregated in a single designated reserve.

(d) No association or unit owner, director, officer, managing agent, or employee of an association who makes a good faith effort to calculate the estimated replacement reserves for an association shall be liable if the estimate subsequently proves incorrect.

(e) Except in emergency situations or with the approval of a majority of the unit owners, a board may not exceed its total adopted annual operating budget by more than twenty per cent during the fiscal year to which the budget relates. Before imposing or collecting an assessment under this subsection that has not been approved by a majority of the unit owners, the board shall adopt a resolution containing written findings as to the necessity of the extraordinary expense involved and why the expense

was not or could not have been reasonably foreseen in the budgeting process, and the resolution shall be distributed to the members with the notice of assessment.

(f) The requirements of this section shall override any requirements in an association's declaration, bylaws, or any other association documents relating to preparation of budgets, calculation of reserve requirements, assessment and funding of reserves, and expenditures from reserves with the exception of:

(1) Any requirements in an association's declaration, bylaws, or any other association documents which require the association to collect more than fifty per cent of reserve requirements; or

(2) Any provisions relating to upgrading the common elements, such as additions, improvements, and alterations to the common elements.

(g) Subject to the procedures of section 514B-157 and any rules adopted by the commission, any unit owner whose association board fails to comply with this section may enforce compliance by the board. In any proceeding to enforce compliance, a board that has not prepared an annual operating budget and reserve study shall have the burden of proving it has complied with this section.

(h) As used in this section:

"Capital expenditure" means an expense that results from the purchase or replacement of an asset whose life is greater than one year, or the addition of an asset that extends the life of an existing asset for a period greater than one year.

"Cash flow plan" means a minimum twenty-year projection of an association's future income and expense requirements to fund fully its replacement reserves requirements each year during that twenty-year period, except in an emergency; provided that it does not include a projection of special assessments or loans during that twenty-year period, except in an emergency.

"Emergency situation" means any extraordinary expenses:

(1) Required by an order of a court;

(2) Necessary to repair or maintain any part of the property for which the association is responsible where a threat to personal safety on the property is discovered;

(3) Necessary to repair any part of the property for which the association is responsible that could not have been reasonably foreseen by the board in preparing and distributing the annual operating budget;

(4) Necessary to respond to any legal or administrative proceeding brought against the association that could not have been reasonably foreseen by the board in preparing and distributing the annual operating budget; or

(5) Necessary for the association to obtain adequate insurance for the property which the association must insure.

"Major maintenance" means an expenditure for maintenance or repair that will result in extending the life of an asset for a period greater than one year.

"Replacement reserves" means funds for the upkeep, repair, or replacement of those parts of the property, including but not limited to

roofs, walls, decks, paving, and equipment, that the association is obligated to maintain. [L 2004, c 164, pt of §2]

Note

Chapter 16-107, subchapter 6, Hawaii Administrative Rules, applies to this section until new rules are adopted. L 2006, c 273, §34.

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