
A BILL FOR AN ACT

RELATING TO CONDOMINIUM RESERVES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that existing law
2 requires condominium owners to be entitled to disclosure of
3 information about the replacement reserves maintained by an
4 association in which they own a unit. Recent efforts to
5 increase transparency and accuracy include Act 62, Session Laws
6 of Hawaii 2022, which provides for periodic review of a reserve
7 study by an independent reserve study preparer and lengthens the
8 study period to thirty years, and Act 199, Session Laws of
9 Hawaii 2023, which requires that a detailed budget summary be
10 prepared to better inform owners of the financial condition of
11 an association.

12 Despite these efforts to emphasize the importance of
13 compliance with the disclosure requirements relating to
14 association fiscal matters, further amendments are needed to
15 explicitly state that the defense of good faith compliance shall
16 be unavailable to any association whose board adopts a budget
17 that omits the mandated budget summary. Moreover,



1 clarifications are needed concerning unit owners' standing to
2 enforce compliance and that an association has the burden of
3 proving compliance when violations are alleged.

4 Accordingly, the purpose of this Act is to:

- 5 (1) Require a detailed budget summary as required by
6 section 514B-148, Hawaii Revised Statutes, to contain
7 all required information without referring the reader
8 to other portions of the budget or reserve study;
- 9 (2) Exclude the good faith defense for an association
10 whose board adopts a budget that omits a detailed
11 budget summary required by section 514B-148(a), Hawaii
12 Revised Statutes; and
- 13 (3) Clarify a unit owner's standing and the association's
14 burden of proving substantial compliance.

15 SECTION 2. Section 514B-148, Hawaii Revised Statutes, is
16 amended as follows:

- 17 1. By amending subsection (a) to read:

18 "(a) The budget required under section 514B-144(a) shall
19 include a summary with at least the following details:

- 20 (1) The estimated revenues and operating expenses of the
21 association;



- 1 (2) Disclosure as to whether the budget has been prepared
2 on a cash or accrual basis;
- 3 (3) The estimated costs of fire safety equipment or
4 installations that meet the requirements of a life
5 safety evaluation required by the applicable county
6 for any building located in a county with a population
7 greater than five hundred thousand; provided that the
8 reserve study may forecast a loan or special
9 assessment to fund life safety components or
10 installation;
- 11 (4) The balance of the total replacement reserves fund of
12 the association as of the date of the budget;
- 13 (5) The estimated replacement reserves assessments that
14 the association will require to maintain the property
15 based on a reserve study performed by or on behalf of
16 the association; provided that the reserve study, if
17 not prepared by an independent reserve study preparer,
18 shall be reviewed by an independent reserve study
19 preparer not less than every three years; provided
20 further that a managing agent with industry reserve



1 study designations shall not be considered as having a
2 conflict of interest for purposes of this paragraph;

3 (6) A general explanation of how the estimated replacement
4 reserves assessments are computed and detailing:

5 (A) The identity, qualifications, and potential
6 conflicts of interest of the person or entity
7 performing the reserve study, update, or any
8 review thereof;

9 (B) Disclosure of any component of association
10 property omitted from the reserve study and the
11 basis for the omission;

12 (C) Planned increases in the estimated replacement
13 reserve assessments over the thirty-year plan;
14 and

15 (D) Whether the actual estimated replacement reserves
16 assessments for the prior year as defined in the
17 study was less than the assessments provided for
18 in the reserve study, and, if so, by how much,
19 and explaining the impact of the lesser
20 assessments on future estimated replacement
21 reserves assessments;



(7) The amount the association must collect for the fiscal year to fund the estimated replacement reserves assessments; and

(8) Information as to whether the amount the association must collect for the fiscal year to fund the estimated replacement reserves assessments was calculated using a per cent funded or cash flow plan. The method or plan shall not circumvent the estimated replacement reserves assessments amount determined by the reserve study pursuant to paragraph (5).

The summary shall contain all required information without referring the reader to other portions of the budget or reserve study."

2. By amending subsection (d) to read:

"(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 assessments for an association shall be liable if the estimate subsequently proves incorrect[-]; provided that this subsection shall not apply to an association if its board adopts a budget that omits the summary required by subsection (a)."



1 3. By amending subsection (g) to read:

2 "(g) ~~[Subject to the procedures of section 514B 157 and~~
3 ~~any rules adopted by the commission, any]~~ Any unit owner whose
4 association board fails to substantially comply with this
5 section ~~[may]~~ shall have standing to bring an action to enforce
6 compliance by the board. In any ~~[proceeding]~~ action to enforce
7 compliance, a board ~~[that has not prepared an annual operating~~
8 ~~budget and reserve study]~~ shall have the burden of proving it
9 has substantially complied with this section."

10 SECTION 3. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 4. This Act shall take effect on July 1, 2050.



Report Title:

Condominiums; Budget Summaries; Associations; Boards;
Compliance; Standing; Good Faith Defense; Burden of Proof

Description:

Requires a detailed budget summary as required by section 514B-148, HRS, to contain all required information without referring the reader to other portions of the budget or reserve study. Excludes the good faith defense for associations whose boards adopt a budget that omits a detailed budget summary as required by section 514B-148, HRS. Clarifies a unit owner's standing and the association's burden of proving substantial compliance. Effective 7/1/2050. (SD2)

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