



March 10, 2023

**SUMMARY OF BILL AS AMENDED (005302):** Requires the board of directors for a unit owners' association (UOA) created under the *Tennessee Condominium Act of 2008* to have a reserve study conducted on or before January 1, 2025, if the board has not had a reserve study conducted on or after January 1, 2020. Requires the board of directors to review the reserve funding annually for adequacy and to update its reserve study every five years.

**FISCAL IMPACT OF BILL AS AMENDED:**

**NOT SIGNIFICANT**

Assumption:

- The proposed legislation concerns requirements for private parties; therefore, any fiscal impact to state or local government is estimated to be not significant.

**IMPACT TO COMMERCE OF BILL AS AMENDED:**

**Increase Business Expenditures –  
\$15,510,000/FY24-25 and Every Five Years Thereafter**

Assumptions for the bill as amended:

- According to the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) report *Protecting the Interests of Homeowners: An Overview of Concerns Related to Homeowners Associations*, in 2015 there were 3,447 active homeowners associations (HOAs) in Tennessee.
- For the purpose of this analysis, this figure is assumed to remain in perpetuity.
- Under current law, HOAs may choose to operate as a profit or nonprofit corporation, a limited liability company, or an unincorporated association.
- The proposed legislation requires the board of directors for certain UOAs that oversee common elements with an aggregate replacement cost exceeding \$10,000 to conduct a reserve study.
- If a UOA has had a reserve study conducted on or after January 1, 2020, then the board of directors shall have an updated reserve study conducted within five years and every five years thereafter.

- If the UOA board of directors has not had a reserve study conducted on or after January 1, 2020, then the board shall require a reserve study be conducted on or before January 1, 2025 and every five years thereafter.
- For the purpose of this study it is assumed that all UOA boards of directors would be required to either update their reserve study or conduct a study on or before January 1, 2025. It is also assumed that all UOA boards of directors in the state oversee common elements with an aggregate replacement cost exceeding \$10,000.
- The cost of each UOA's reserve study will vary but it can be reasonably assumed that a comprehensive analysis of the remaining useful life and the estimated cost to replace each separate system and component of the common elements, in order to determine the amount of reserve fund each UOA should maintain will result in an increase to UOA expenditures of \$10,000 once every five years.
- It is assumed that UOAs comprise 45 percent of the HOAs in Tennessee, or 1,551 (3,447 HOAs x 45%).
- The increase to UOA expenditures is estimated to be \$15,510,000 (1,551 UOAs x \$10,000) in FY24-25 and every five years thereafter.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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