

# CHURCH POINT HOMEOWNERS ASSOCIATION

UPDATED RESERVE STUDY

2017



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Church Point Homeowners Association

Reserve Study

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## Introduction

Church Point is a 383-unit homeowner's association in Virginia Beach, VA with two entrances located along First Court Road. The neighborhood is divided into 4 main sections – The Mews, The Commons, The Quays and the gated community of Bishop's Court. The Private and walled Bishop's Court area is not included in this study. The farthest west end of the neighborhood, at the foot of Church Point Place is the storm water retention lake (BMP). The Mews makes up the oldest and narrowest section of the neighborhood bordered by First Court Road on the North and the Thoroughgood Neighborhood to the South. The Mews, with shared connecting driveways and linked cul-de-sacs has the largest percentage of homes and the smallest percentage of common area. There is an entrance off First Court Road (with signage and irrigation but no power), a small cut through access inside one of the cul-de-sacs to the Thoroughgood neighborhood and a long footbridge around the lake to the shopping center.

Heading East from the Mews is the Main Entrance and Gazebo park. The Main Entrance is a four-lane access/egress, separated by a landscaped island with brick monument signage. Either side of the Main entrance is bracketed by decorative brickwork with wrought iron accents, columns and landscaping. The Gazebo Park features the stand-alone Gazebo structure with aggregate sidewalk along with brick columns, benches and landscaping. There is a long asphalt path leading from the city sidewalk back to the Thoroughgood neighborhood.

The Commons has two asphalt paths and a large common field. The first asphalt path is on the north side and leads to the beginning of the carriage path along the northern border of Church Point and Bayville Golf Course. The second asphalt path is on the south side and leads to the historic Thoroughgood House. The common field is located across from the Manor House and consists of the irrigation pump house brick structure, irrigation controls, irrigation pump and a seating bench.

The Quays section has the waterfront access. The pier is no longer present nor accounted for in this study thus the common area only consists of landscaped grass area with wooden railing, benches, trash can, historic marker, signage and access to waterfront along with rip rap rock protecting the street height viewing area.

## **Requirement to Perform a Reserve Study**

The Commonwealth of Virginia code § 55-514.1 (dated 7/1/2002) requires with respect to reserves for capital components:

A. Except to the extent otherwise provided in the declaration and unless the declaration imposes more stringent requirements, the board of directors shall:

1. Conduct at least once every five years a study to determine the necessity and amount of reserves required to repair, replace and restore the capital components;
2. Review the results of that study at least annually to determine if reserves are sufficient; and
3. Make any adjustments the board of directors deems necessary to maintain reserves, as appropriate.

B. To the extent that the reserve study conducted in accordance with this section indicates a need to budget for reserves, the association budget shall include, without limitation:

1. The current estimated replacement cost, estimated remaining life and estimated useful life of the capital components;
2. As of the beginning of the fiscal year for which the budget is prepared, the current amount of accumulated cash reserves set aside, to repair, replace or restore capital components and the amount of the expected contribution to the reserve fund for that year; and
3. A general statement describing the procedures used for the estimation and accumulation of cash reserves pursuant to this section and the extent to which the association is funding its reserve obligations consistent with the study currently in effect.

## Process for Completing a Reserve Study

The most critical component of the reserve study is the evaluation of the life cycle of all the components, material, and equipment. Homeowners Association Boards of Directors should ensure they hire a professional with direct industry experience and knowledge to perform the study. For the basis of reference, I have over 15 years experience in construction and facility management and have performed over 60 Reserve Studies in the last 5 years.

Reserve studies are completed by collecting data from the Board of Directors and / or Property Manager, reviewing financial records, surveying all common areas and equipment, and evaluating life cycles. In determining life cycles, several publications are used like R. S. Means, McGraw Hill Book Company, National Construction Estimator and similar resources along with industry professionals. Costs for this reserve study were valued using the above publications, industry experience and direct contractor replacement quotes. I personally worked with two general contractors and vendors to review and evaluate the items included in the study. There are three generally accepted processes for Reserve Studies.

1. Full Reserve Study
2. An updated Reserve Study with full site inspection
3. An updated Reserve Study with no onsite inspection

A Full Reserve Study requires a complete on-site review of all components to include an inventory, baseline description and condition, a valuation of current condition along with remaining life, an evaluation of required costs to replace all current components with same or similar construction and material, and finally a funding analysis. This is the most detailed and longest study as all items are identified, listed and tracked.

An Updated Reserve Study with site inspection is normally conducted on the next cycle after previously completing a full reserve study. This study reviews all current conditions, validates the previous inventory, updates component status and reviews the funding analysis.

An Updated Reserve Study with no site inspection focuses primarily on updating records and inventories based on data provided by Board of Directors and/or Property Manager and then completing an updated funding analysis.

Although a previous reserve study was conducted by another firm in 2007 and was reviewed for this Reserve Study, the results of this reserve study are based upon the completion of a Full Reserve study conducted on site and the creation all new schedules and data inventories. Although some sections of the neighborhood were built after others and much of building construction occurred over several years during the initial Developer construction phase, for the sake of this reserve study, the originating date for all components will be 1993 unless recent documentation indicates more recent replacement. Additionally, it is assumed unless otherwise indicated that all components in the Reserve Study were built or installed originally per code, industry standards or manufacturer specifications.

## List of Reserve Items

The Covenants for the HOA identify the areas designated as “common land/items” that are required to be maintained by the Homeowners Association. Within these identified common areas are items which should be maintained through the Capital Reserves for Replacement Schedules. These items are:

- The lake
  - Specifically, the dredging and shoreline riprap.
  - Lake fountain and associated components
  - Lake wooden footbridge
- The Gazebo Park
  - Gazebo structure, lighting and electrical
  - Irrigation system
  - Asphalt path, concrete path, wooden barriers
  - Signage
  - Benches/trashcan
  - Brick columns
- Main Entrance
  - Brickwork
    - Monument sign, columns, side entrance curved brickwork with wrought iron
  - Landscape lighting
  - Electrical
  - Irrigation system
- Mews Entrance
  - Signage and irrigation
- Commons Park (across from Manor House)

- Irrigation building, irrigation system and electrical
- Bench
- Waterfront park
  - Historical marker
  - Benches and wooden barriers
  - Trashcan
  - Signage
  - (no pier remaining)
- Misc areas
  - Commons Area - asphalt path and wooden barriers to carriage path
  - Commons Area - asphalt path and wooden barriers to Thoroughgood House
  - First Court Road - wooden barriers behind homeowner's fences

## Details of Reserve Items

### The Lake Area:

- Lake Fountain and controls



- Footbridge



It should be noted that there are two foot bridge's, one extends from the end of Church Point Place to the shopping center and a second shorter arching bridge from shopping center/restaurant to First Court Road. Based on physical indications, it appears the shorter bridge is used almost exclusively by shopping center tenants to haul trash to designated dumpster across First Court Road. There is no dedicated access to Church Point homeowners to this bridge. For purposes of this Reserve Study, only the longer, level foot bridge from Church Point Place is included as a capital item to be maintained by the HOA.



## The Gazebo Park

- Gazebo Structure



- Irrigation and Electrical



- Asphalt path and wooden barriers



- Brick columns



- Concrete path and trashcan



- Benches



## The Main Entrance

- Center monument sign and brickwork



- Side brickwork and wrought iron



- Electrical



- Irrigation



- Landscape Lighting



## Mews Entrance

- Signage and Irrigation



## Commons Park

- Irrigation Building



- Bench



## Waterfront

- Historical Marker



- Benches, Wooden Barriers and trashcan



## Misc Areas

- Asphalt Path to Carriage Path along Bayville Golf Course with wooden rails



- Asphalt Path to Thoroughgood House with wooden rails



- First Court Road Wooden Barrier Rails



## **RESERVE FUNDING METHODS**

There are two generally accepted methods for determining and calculation a reserve funding plan: The “Component Method” (sometimes referred to as the “straight-line” or “pay as you go” method and the “Cash Flow Method”. The Association of Professional Reserve Analysts and Community Associations Institute approved both methods and the determining of which method is selected rests with the Board of Directors. Both methods list all equipment, their life expectancy, the last date of replacement, number of remaining years and the future cost of replacement. An annual expenditure cost is then determined by year over the course of 30 years. The difference in the methods is that with Component method, the annual funding amount is tied directly to the annual expenditure amount for that year thus it varies significantly year to year and must be recalculated every year. In the Cash Flow Method, a funding analysis is performed to evaluate the required funding over the entire schedule and determines a designated annual funding amount to ensure adequate funding over time.

The most common method and the one recommended for the Church Point HOA is the cash flow method. An annual funding amount is designated in the budget for the reserve account to cover cash flow needs over time and not just annual expenditures. The exact amount is discretionary but recommended to be large enough to cover required funding over the 30-year period of the schedule (although shorter periods are an option) in which balances are carried over with peaks and valleys over time. Although this method impacts the availability of funds for routine operational costs and maintenance/repair issues, this method usually eliminates the need for a special assessment / capital call to ensure reserve balances remain adequate to cover reserve expenditures over time.



## **RESERVE SCHEDULE DETAILS**

The Reserve Schedule is the result of the initial field survey of the common areas and lists all required capital reserve items as designated by the covenants. The schedule lists all the items with life expectancy, remaining estimated life and unit/extended costs calculated out on a 30-year basis for replacement.

The schedule reflects a starting capital reserve balance from the year-end balance of the previous year. Additionally, the planned expenditures in that given year are noted along with designated annual funding for that year from the current year approved budget. An initial baseline schedule is created to show funding, expenses and ending balance over a 30-year period. If at any point over the 30 years, the ending reserve balance goes negative adjustments need to be made to the schedule. Multiple versions of the schedule are then created showing various annual percentage increases until the shortfall is corrected. These percentage annual increases can be adjusted as needed over time per Board direction. If any special assessments would be needed, these values can be added. Unit pricing for items is for full replacement with “like for like” item but includes required supplemental costs (i.e., pool sand filter includes estimated average costs to hire a contractor to remove the old sand from the old filter, disconnect and remove from the property the old filter/associated plumbing, install the new filter assembly with required plumbing, install new sand and activate/test the unit). The intent of the reserve schedule is to ensure proper funding is available to replace an item in its entirety with a new item of like construction, design and material. As a point of clarification – the replacement costs should be all inclusive (the cost of the replacement item and the soft costs associated with the item like tax and freight plus labor costs for installation of the item and disposal of the old item if applicable) as a full replacement project. Additionally, there can be items on the reserve study either deleted due to low unit cost value or added even though low unit cost value if the overall quantity of those items is a large enough capital expense. All such decisions are through Board of Directors determination. Finally, questions can be raised as to when would you replace an item on the schedule in its entirety as a full scale “one time” project or would you just replace an incremental part when it fails. Although you would not normally apply this to something like a singular pump, you would apply it to a large quantity item when possibly discussing the overall condition / full scale replacement based on the majority condition of the whole. An option would be to separate the project into phased replacements of smaller quantities over years to address and replace sections or areas based on specific area asset condition. For example, the sidewalks, curbs and driveways, would you replace all the concrete at one time or replace them as condition warrants. Normally you would not plan for such a full scale simultaneous replacement unless a decision was made by the Board of Directors to replace all at one time to implement a new design or product. For example, a planned material change of the material of the asset (i.e., change all driveways to exposed aggregate concrete as opposed to brushed concrete).

## **REVIEW OF APPROVED RECOMMENDATIONS FROM 2011 RESERVE STUDY**

Back in 2011, there are several items on the full baseline list of reserve items that were recommended to be excluded from the final reserve schedule. The intent of the reserve schedule is to ensure proper funding is available to replace an item in its entirety with a new item of like construction, design and material. As such, the question is raised as to when would you replace an item on the schedule in its entirety as a full-scale project or would you just replace it when it fails. Although you would not normally apply this to something like the gazebo structure, you would apply it when discussing the long run of decorative wooden barriers along First Court Road or the brickwork. Would the HOA ever plan on a complete and full replacement of every single wooden barrier or would they just replace the sections as they fail over time (assuming proper and adequate maintenance and upkeep are performed). Normally, you would not plan for such a full-scale replacement unless a decision was made by the HOA Board to replace all the wood rails at one time or designated period with a new design or product (fiberglass or wrought iron as an example). Similarly, all the brickwork, walls and columns for that matter would probably not be entirely replaced until at least the 50-year mark (again assuming properly cared for over time) unless the HOA Board had decided they were tired of that color brick and wanted a new color brick as an example. Normally, any bad sections of brick would be replaced as needed but the longevity of the brick would exclude it from being on the reserve schedule.

A similar question could be raised about the wooden footbridge. Would there be a decision made to perform a full scale 100% replacement of the wooden footbridge around the lake. If properly maintained, inspected and repairs made as needed, the bridge will last a significant long time and unless the HOA Board decides to replace the bridge with a new style or change the route/design, a full replacement would not be necessary in lieu of completing annual inspections and annual replacement of bad areas/maintenance/upkeep through operating reserves. Unfortunately, the risk of damage to the footbridge is greater than some of the other potential exclusions. Weather damage (tree falls on bridge) or vandalism are significant threats to large scale damage to the bridge. As such, it is recommended the footbridge remain in the Reserve Schedule such that should a major issue arise requiring significant replacement, the funding is planned for in the schedule and could be accelerated as necessary. It is also recommended that 10 cycle full refurbishments occur but not to exceed two cycles of refurb such that the third cycle would be full replacement.

It was recommended and approved by the Board of Directors in 2011 that all the brickwork items throughout the Church Point HOA areas and all the wooden barrier rail systems excluded from the Reserve study. Additionally, it was recommended and approved that funding be allocated and designated to properly maintain these assets over time as necessary. Although the IRS is specific that normal routine repairs and maintenance not be included in the capital reserve expenditures (i.e., annual pressure washing, annual repairs,

routine painting) , a case can be made that a full refurbishment of an item to extend and prolong the life cycle of the asset can be included. This would normally be a project to refurbish and restore to a “like new” condition as best possible with a long duration frequency on the schedule. For example, a single repair to a pot hole or root impediment to the asphalt path would be a repair. To completely undertake the refurbishment of the asphalt path to include corrective action to every noted discrepancy in the path (multiple roots cut out and asphalt replaced, cracks filled and finally a complete fresh top coat application to restore the path to “like new” condition on a frequency of every 5 years thus extending the life of the original path from approx. 20 years to around 35 years (no heavy vehicular traffic on these paths). Similar refurbishments should be applied to the decorative wood railings, the gazebo, the brickwork and the wooden footbridge. Finally, it was recommended and approved that specific refurbishment projects be added to the Reserve Schedule in lieu of removing the full replacement projects for those items on the Reserve Schedule.

Recommended and Approved Exclusions:

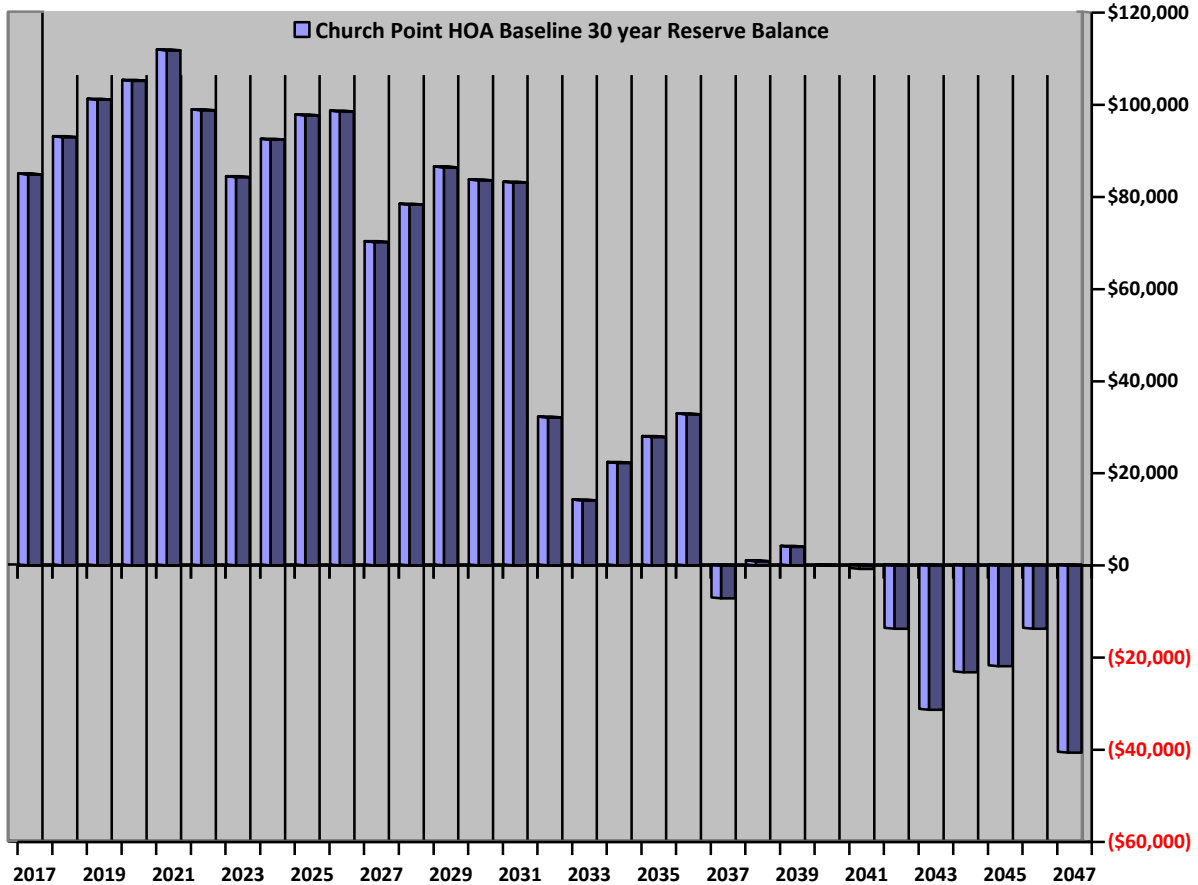
- Center island brick (8'6"x4'3"x2')
- Center island brick planters
- East retaining brick wall
- East retaining wall metal accents - large section
- East retaining wall metal accents - long low wall
- West retaining brick wall
- West retaining wall metal accents - large section
- West retaining wall metal accents - long low wall
- Brick columns (25x25x72 tapered) – Gazebo Park
- Brick columns (24x24x72 tapered) –main entrance
- Gazebo park decorative wood rails - replace
- Commons (CP) decorative wood rails to carriage path - replace
- Commons (TH) decorative wood rails to Thoroughgood House - replace
- Decorative wood railing at Waterfront - replace
- Wooden barriers (decorative wood rails) – First Court Road - replace

Recommended and Approved Additions to Schedule:

- Brick work at main entrance – center, east and West - refurb
- Metal accents on brickwork – East and West - refurb
- Brick columns at main entrance and gazebo park - refurb
- East wooden footbridge at lake - refurb
- Decorative wood railing – First Court Road, asphalt paths & waterfront – refurb
- Asphalt paths – refurb
- Gazebo Structure – refurb
- Tree replacement along Church Point Road

## RESERVE STUDY CONCLUSION

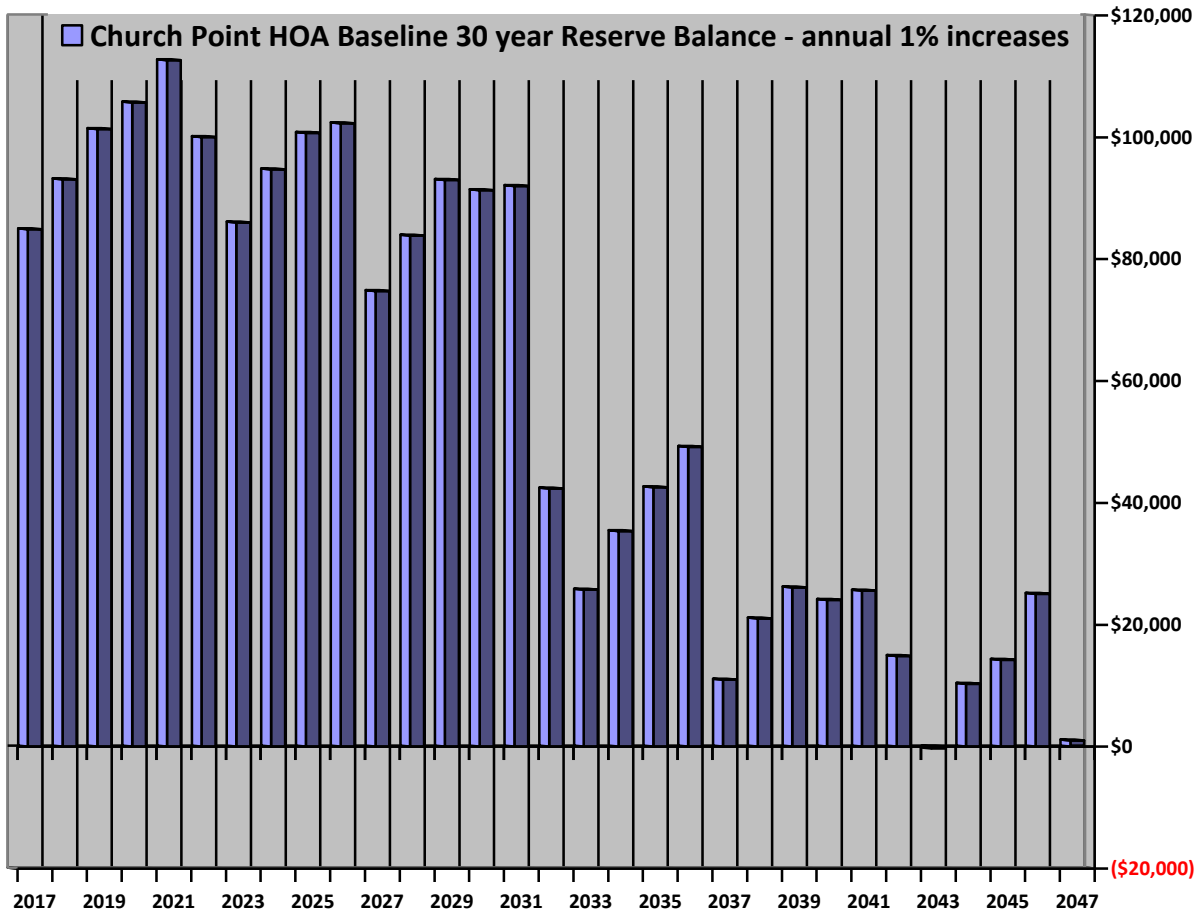
The baseline schedule with current funding level to replacement reserves of \$8,118 annual and 0% annual increases (flat \$8,118 every year) reflects that the Capital Reserve balance will go negative in 2037 and again in 2040 from which the balance doesn't recover positive. The Reserve fund is UNDER-FUNDED for the remainder of the 30-year period.



The Board of Directors has a fiduciary responsibility that requires every effort be made to ensure that, over the 30-year period, the Reserve Balance doesn't go negative (under-funded) but likewise isn't carrying unnecessarily high ending balances (over-funded). There are various options available to the Board of Directors to ensure the Reserve balance does not go negative. Those options include "special assessments" and bank loans to make up the difference. The most common is increasing annual funding amounts to the capital reserve. Options again exist with respect to flat annual increase (i.e., 12% annual increases year after year) or variable increases (i.e., 5% increases every 5 years). These would, of course, be annual percentage increases in addition to any other percentage increases needed to maintain operating reserves.

Utilizing existing 2017 funding amounts and calculating 1% annual increases going forward, the lowest reserve balance over the 30-year period is (\$322.00) in 2043. This negative balance deficit is not only 26 years in the future but also such a low that it will probably self-correct itself over time based on contract bids and pricing adjustments related to the 5-year reserve study schedule.

**OPTION 1:**



It is recommended the Board of Directors budget for annual 1% increases to replacement reserves annually per Option 1.

## Addendum