

CHURCH POINT HOMEOWNERS ASSOCIATION

RESERVE STUDY

2011



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Church Point Homeowners Association

Reserve Study

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Introduction

Church Point is a 383 unit homeowners association in Virginia Beach, VA with 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 water retention lake. 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 courts is the oldest section, has the largest percentage of homes and the smallest percentage of common area. There is a vehicle entrance off of First Court Road (with signage and irrigation), a small cut through access inside one of the courts 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 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 and a seating bench.

The Quays section has the waterfront access. Although the pier is no longer present nor accounted for in this study, the common area consists of landscaped grass area with wooden railing, benches, trash can, historic marker, signage and access to beach area 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 (dtd 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 the majority 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 homeowners 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

There are two generally accepted methods for determining and calculating a reserve funding plan: The Component Method (sometimes referred to as “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, last date of replacement, number of remaining years and 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 the 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.

In simple terms there are two common ways to fund Reserves – pay as you go and annual funding. Basically, the annual funding method is one in which the HOA sets aside budgetary funds annually into a reserve account to cover future costs of capital replacements. This annual funding option can be set up as either a fixed annual amount or variable amounts annually (annual incremental increases). The other option is the “pay as you go” method in which the HOA does not set aside a reoccurring annual fund amount but just allocates annually an amount that equals the required expenditures that year.

The most common method and the one recommended for this HOA is the cash flow method in which an annual funding amount is designated in the budget to the reserve account to cover cash flow needs over time and not just annual expenditures. The exact amount is discretionary to the HOA 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 expenditures over time.

It should be noted, that the Church Point HOA Board of Directors has been engaged in the recommend Cash Flow Method since the last Reserve Study and has indicated a desire to maintain that direction going forward.

Full Baseline Reserve Schedule

The Full Baseline Reserve Schedule is the results of the full initial 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 life and unit/extended costs calculated out on a 30 year basis for replacement. The 30 year schedule is laid out to reflect the following columns:

- A = estimated life of the item
- B= (+/- years) indicator to allow the HOA to defer or accelerate a timed replacement as a result of increased or decreased wear. For example, if a bench is schedule for replacement in 2015 but it is still in good shape, the HOA Board may elect to defer replacement another 3 years and thus would enter a (+3) into column "B". Likewise, if an annual review revealed the bench was deteriorating quicker than anticipated, a (-3) could be inserted to recalculate and accelerate the expense for replacement.
- C= year item was last replaced
- D= remaining life expectancy in years based on values in "A", "B" and "C"
- E = scheduled year for next replacement factoring in values in "A", "B", "C" & "D"
- F = listed item name
- G = number of units / quantity of items
- H = individual unit cost
- I = extended cost factoring in values of "G" and "H"
- J = value for required annual funding to cover replacement over outlying years
- K = Cumulative funding required over life of schedule based on number or replacements required.

The bottom of the schedule indicates starting balance as a carry forward from previous year. Planned expenditures in that given year with designated funding for that year. Any special assessments followed by breakdown on a per unit cost basis for balance or shortfall. There is a space for any set aside contingency funding the HOA could decide to carry and finally, the resultant annual balance. Based on the full baseline schedule listing of items and the current annual funding amount of \$2,400, the reserve fund will go negative in year 2018 with a 30 year shortfall of \$141,882. Initial Full Baseline Schedule can be viewed as Addendum 1.

Recommended Exclusions and Additions to the Schedule

Overview –

There are several items on the full baseline list of reserve items that are 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 of time 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 at 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.

Additionally, the success and accuracy of any Reserve Study involves open communication with the HOA Board to understand their intentions and desires. As such, it was noted a special

concern exists with respect to the Honey Locust Trees along Church Point Road in the Commons Area – specifically from the Main Entrance to the Manor House. These trees were original plantings by the Developer to create the tree lined appeal of Church Point Road. Currently, the majority of these trees are diseased and are being overtaken by Mistletoe. The HOA Board has noted a desire to maintain the tree lined appeal of Church Point Road and as such, replace the trees.

Recommendation –

It is recommended that all of the brickwork items throughout the Church Point HOA areas and all of the wooden barrier rail systems excluded from the Reserve study. Additionally it is recommended 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 followed by a complete fresh top coat application to restore the path to “like new” condition on a frequency of every 10 years thus extending the life of the original path from approx 20 years to 30 plus years. Similar refurbishments should be applied to the decorative wood railings, the gazebo, the brickwork and the wooden footbridge.

It is recommended that the tree replacements noted previously along Church Point Road be included in the Reserve Schedule on a phased replacement cycle over several years.

Finally, it is recommended 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. The HOA Board may elect to leave or add these items to the Operating Reserve schedule which is also acceptable but it is imperative they be included somewhere and tracked/executed upon to ensure the assets are properly cared for over time if they are to be removed from the full Reserve Schedule.

Recommended 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

Recommend additions to schedule and for planned long term refurbishments:

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 – refurb
Decorative Wood railing - along three asphalt paths - refurb
Decorative wood railing – waterfront – refurb
Asphalt paths – refurb
Gazebo Structure – refurb
Tree replacement along Church Point Road

Alternative Recommended Reserve Schedule

Taking into account the recommend exclusions and the recommended additions listed above, the alternative recommended reserve schedule is listed in addendum 2. One of the advantages of this scheduling format used for this Reserve Study is the ease of manipulation to automatically re-calculate reserve balances when changing funding amounts. Adjustments to funding amounts are performed with the intent of ensuring a positive fund balance at the end of the 30 year schedule and also to manage year end balances to be positive. Incremental adjustments are made until the target is attained.

The preliminary alternative schedule still references the current annual funding level of \$2,400 but factors in 2% annual increases to funding (could be budgetary increases or investment returns factored in). Based on this current annual funding amount of \$2,400, the reserve fund will go negative in year 2022 with a 30 year shortfall of (\$146,590). As incremental increases to the annual funding budget are performed, a resultant recommendation is achieved in which the annual funding amount is increased to \$7,500 resulting in a 30 year cash flow positive balance of \$69,545. Hills and valleys of ending balances occur throughout the schedule with only 2 years dipping negative over 30 years (2033 and 2034) but both are manageable through accelerations and deferrals of select component replacements during the preceding 20 years. The final recommended reserve schedule can be viewed as Addendum 3.

Summary Conclusion

The Reserve Study is designed to replace components only with like construction, material and design. Although alternative designs and construction materials have been proven to extend component life cycles and reduce routine maintenance costs, these options are not included or accounted for in the Reserve Study. Examples of alternative materials for future considerations would be the use of currently commonly used construction materials like fiberglass or long life coatings on the gazebo and similar structures as well as the deck boards, etc on the foot bridges.

After reviewing all components across the common areas and comparing against the current Reserve Schedule and funding, it is determined that the current Capital Reserve is under-funded over the next 30 years and funding adjustments are necessary. Additionally, it is recommended several items be removed from the reserve schedule due to their constructions, long life and more importantly the high probability that those items would never be replaced for something new as a full group replacement as opposed to continued repair and maintenance over time. Primary example is the all of the brick work around the main entrance and the gazebo. This was discussed with the Board of Directors and approved for removal from the schedule. Additionally, the second footbridge around the lake is used by the shopping center and is currently being maintained by the shopping center thus it is recommended to not be included in the reserve schedule.

Although the brick work is being removed, a large scale refurbishment project for the brickwork is recommended for inclusion as well as full refurbishments of the asphalt paths and the wood rails / footbridge. These large scale refurbishments are designed to return these components to "like new" condition as best possible and are far more inclusive and detailed than normal repairs and maintenance upkeep. These full refurbishments extend the life cycles of the noted components, thus extending their useful life before full replacement. These were presented to the Board of Directors and approved for inclusion in the schedule.

Additionally, the Board desired to set up a phased, multi-year project to replace a large number of trees (Honey Locust trees along Church Point Road in the Commons Area) that are diseased, dying and unsightly. Those projects were included in the schedule to occur over three years commencing in 2012.

There are several areas currently in need of routine maintenance and upkeep. It is highly recommended that the above noted full refurbishments occur as soon as possible to maintain the assets. The schedule has been tailored to execute these projects over the next several years to extend the life of those areas and defer full replacement to later years. Full refurbishments will repair and replace damaged/deteriorated areas, clean and seal/protect them for long term exposure to elements and thus extend their useful life. Noted areas of concern are some rotted wood at the Gazebo and Commons Park irrigation building as well as:



Deteriorated wood on decorative rails and footbridge



Potholes on asphalt paths as well as root damage

Taking into account the removal of noted items above along with the addition of refurbishments and the tree replacements still left the reserve under-funded over a 30 year period. Following the Board of Director's intent to follow the Cash Flow method of ensuring the HOA is fully funded over 30 years with a positive balance, it is recommended to increase annual funding to \$7,500 from the current \$2,400. Additionally, a 2% annual increase to funding was factored in to cover cost increases. This 2% can be from basic annual budgeting increases or even returns from investments should the Board of Directors allocate funds for investing. These investments are recommended to be just short duration terms over years of high reserve balances prior to larger expenditure years.

It is felt the recommended annual funding increase of \$5,100 (\$2,400 to \$7,500) is manageable within the existing budget. Currently the 2011 budget is allocating a total of \$11,200 to Reserves with \$8,800 designated to the Operating Reserve and just \$2,400 to the Capital Reserve. With major long term refurbishments covered in the capital reserve schedule, the current planned needs of the operating reserve fund show it to be overfunded. Thus, the recommendation is to reallocate the current annual funding of \$11,200 with \$7,500 for the Capital Reserve and \$3,700 to the Operating Reserve.

Addendum 1

Addendum 2

Addendum 3