

# Point Richmond Ridge Homeowners' Association

## Reserve Fund Study 2019 Annual Report

The PRR HOA BOD reviews and updates a Reserve Study annually in accordance with Washington State Legislature *RCW 64.38.065*. The Reserve study is supplemental to the operating and maintenance budget and estimates the anticipated major maintenance, repair, and replacement costs, whose infrequent and significant nature make them impractical to be included in an annual budget. The Reserve Fund Study Annual Report for 2019 is based upon a formal Reserve Study done by the Reserve Study Group in 2017 and modified during 2018 to more accurately reflect PRR HOA requirements. The PRR HOA Board elects to provide an update to the Reserve Fund Study for 2019 based upon professional expertise available within the PRR HOA to minimize reserve study consulting costs.

This report was reviewed and approved by the PRR HOA Board on October 20, 2019.

### Background

1. The Point Richmond Ridge Homeowners' Association (PRR HOA) is responsible for maintenance of the common areas (Tracts A through J), as well as enforcement of the Maintenance and Protective Covenants (M&PCs). The assets include private roads, a playground, several forested "open areas" and "landslide/erosion hazard areas." To accomplish this, the HOA has an annual operating budget for ongoing/regular expenses and a reserve fund for periodic, major maintenance expenses. The subject of this projection is the PRR reserve fund.
2. The maintenance standard for roads is specifically stated to "... conform to, Pierce County private road standards ..." With respect to common areas, the standard is "... Pierce County Development Regulations for Gig Harbor ..." These are part of the Articles of Incorporation.
3. Homeowners are required by the Covenants (M&PCs) to pay dues to the HOA to cover the responsibilities of the HOA.

### General Premises

1. The PRR reserve fund will be maintained by annual contributions such that the total amount of the funds will remain greater than zero in all years. Homeowner dues will be adjusted as necessary to ensure the funds remain adequate.
2. A primary objective is to avoid the need for special assessments, but replacement or asphalt resurfacing of the roads would likely require an assessment. The alternative would be significantly higher annual dues assessments.
3. The HOA will attempt to maintain a consistent contribution rate to the reserve fund for a few years at a time to avoid frequent dues adjustments; but the dues will be adjusted as required to adequately fund the reserves.
4. The current reserves projection is based on the required 30-year time frame, 2020-2050.

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5. The reserve fund is designated to cover maintenance of the following “capital” assets owned by the HOA. Effectively, the funds are intended to extend the usable life of the assets. Funds will be used from the reserves for this maintenance.
  - a. Roads - including all patching, sealing, and repairs
  - b. Storm drainage system – including cleaning and repairs
  - c. Tract B - playground equipment, surfacing, borders, and plants
  - d. General signage – e.g. stop signs
  - e. Mailboxes – need to be replaced periodically
6. Reserve Fund exclusions:
  - a. Major Replacement or Asphalt Resurfacing of the Roads. Basis: With proper routine maintenance and spot repairs, the roads should not need to be replaced during the 30-year reserve projection. If the roads need major repair or replacement at some point, the current plan would require a special assessment. No special assessment is envisioned within the time frame of this projection (up through 2050).
  - b. Replacement of the Entry Monuments. Basis: The intent is to maintain these in good repair through the annual operating budget such that they do not need to be replaced.
  - c. Tree Removal or Maintenance of the Open Areas and Buffers. Basis: These activities are designated to be funded from the annual operating budget and provisions are made there based on experience.
  - d. Maintenance of the Tract B Tables and Tract D Bench. Basis: These costs are funded from the annual operating budget. These are not significant capital items.
  - e. Repairs for Major Damage Due to Acts of God (e.g. earthquake, landslide, severe windstorm). Basis: These, by nature, are unpredictable and could far outstrip any reasonable provisions.
  - f. Contingency. Basis: The projected total accumulated funds in the reserve account each year provide an adequate contingency over and above annual requirements.

### Basis for Projections

1. Following are the bases for the reserve fund costs:

Line No.	Description	Maint. Cycle, yrs	Cost Basis	Inflation
1	Street Maintenance (patching, repairs, resurfacing)	8	\$39,374 (2018 Actual)	3%/yr
2	Catch Basin Cleaning/Repairs	10	\$2,422 (2018 Actual)	3%/yr
3	Tract B Landscaping Bark	4	\$2,784 (2017 Actual)	3%/yr
4	Tree Removal		Oper. Budget	
5	Playground Equipment Replacement	30	Est'd \$26,096 (In 2032)	3%/yr
6	Playground Surface Replacement	11	\$2,000 (2017 Actual)	3%/yr
7	Playground Border Replacement	15	\$1,760 (2017 Actual)	3%/yr
8	Tract D Bench/Other		Oper. Budget	
9	Tract B Tables		Oper. Budget	
10	Entry Monuments/Signage		Oper. Budget	

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Line No.	Description	Maint. Cycle, yrs	Cost Basis	Inflation
11	General Signage	9	\$700 (2019 Estimate)	3%/yr
12	Mailboxes	30	\$12,460 (2029 Estimate)	3%/yr
13	Asphalt Overlay/Major Roadwork	> 50	None Expected	

### 2. Reserve Fund Accumulation Basis:

- a. The reserve fund consists of:
  - i. Money market account (MMA) – liquid assets
  - ii. CD or other conservative, interest-bearing account (AAB CD)
  - iii. Annual payments into the account from dues – year-end transfer
- b. The initial amount in the reserve fund was \$28,296 at the beginning of 2019/end of 2018.
- c. For each year, the total funds at end of year are estimated as the amount in the fund from the previous year plus 2% interest minus the expenditures during the subject year.
- d. The amount of money contributed to the reserve fund each year is targeted to keep the fund whole for the 30-year projection. Currently this is \$180 per year per homeowner or \$15,000 total, a contribution rate of 45%.
- e. The contribution may vary year over year. It is intended that surplus or unallocated funds left at year-end in the operating budget would incrementally be contributed to the reserve fund such that the net, long-term contribution is \$15,000/yr. Based upon experience, dues will be changed to ensure the long-term average based on experience. There are no additional regular or special assessments scheduled for 2020.
- f. With effective bidding of work, the reserve fund will benefit from costs below those projected. Conversely, if the inflation rate increases significantly there may need to increase contributions and dues.

### Projection Results

#### Current Year plus Five-Year Reserve Account Estimate

Activity	2019	2020	2021	2022	2023	2024
Total Projected Cost	700	0	3,494	0	0	0
Reserve Funds *						
AAB CD	34,568	42,672	51,577	67,909	84,567	101,558
MMA	7,267					
X-fer from Oper Acct.	13,539	11,320	15,000	15,000	15,000	15,000
Addition from dues						
	41,835					

\* Reserve Funds (AAB CD & MMA) represented in AAB CD for 2020-2024 plus interest less project cost

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At end of year 2018, the recommended amount in the Reserve account was \$43,849 for 2019, the actual projected reserve account balance is \$41,835, representing a 95.4% funding rate. The \$2,014 funding short fall is primarily due to emergency snow removal in February 2019.

Based upon the general premises, the reserve fund will average \$122,834 over the 30-year timeframe. The 30-year range is projected to be between \$42,000 and \$208,000, primarily driven by the costs for the periodic road patching and sealing. At the end of 30 years (just after a road patching/sealing cycle), the fund is forecasted to be approximately \$100,000, with over \$355,000 being spent upon road maintenance during the 30-year period. Based upon this report and associated analysis, the Reserve Fund is projected to be 100% funded over the next 30 years.

The 3% inflation rate assumed for costs is considered conservative since the general inflation rate has been running about 2% for several years. The 2% yield on the reserve fund investments is similarly conservative, with better rates possible.

With respect to major roadwork, the condition of the roads will be tracked on an ongoing basis. With diligence, there would be several years to adjust the dues rate to avoid or reduce any special assessment required.