

**Point Richmond Ridge
Homeowners' Association**

Reserve Fund 2022 Annual Update Summary

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 2022 Update is based on subsequent tracking and learnings since the formal Reserve Study done by the Reserve Study Group in 2021.

This report was reviewed and approved by the PRR HOA Board on September 21, 2022.

Background

1. The Point Richmond Ridge Homeowners' Association (PRR HOA) is responsible for maintenance of the common areas (Tracts A through J) and streets, as well as enforcement of the Maintenance and Protective Covenants (M&PCs). The assets include a playground, several forested "open spaces" and "landslide/erosion hazard zones." 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 spaces, the standard is "... Pierce County Development Regulations for Gig Harbor ..." These are part of the Articles of Incorporation. Tracts B through J are subject to the Policy for Management and Maintenance of Open Spaces, Parks, and Landslide & Erosion Hazard Zones as adopted by the Board on August 29, 2022.
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 may require an assessment or significantly higher dues. An alternate to road resurfacing is to continue patching and sealcoating. However, this too will require periodic dues increases, but the increases are expected to be significantly less.
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 have to be adjusted as required to adequately fund the reserves.

4. The current reserves projection is based on the required 30-year time frame, 2023-2052.
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.
 - 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. Tract D – drainage field landscaping (AKA “Heliport”)
 - e. General signage – e.g., stop signs
 - f. 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 may require a special assessment. No special assessment is envisioned within the time frame of this projection (up through 2052).
 - 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 primarily from the annual operating budget and provisions are made there based on experience. Some funds are included in reserves for more larger maintenance needs in these areas.
 - d. 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.
 - e. 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)	3	\$15,000 (start 2024)	5%/yr
2	Street Sealcoating	5	\$62,700 (start 2023), adjusted based on 2022 increases	5%/yr
2	Catch Basin Cleaning/Repairs	2	\$2,500	5%/yr
3	Tree Removal	3	\$3,183	5%/yr
4	Playground Equipment Replacement	30	Est'd \$30,000 (In 2037)	
5	Playground Surface Replacement	3	Est'd \$2,719 (In 2024)	3%/yr
6	Playground Border Replacement	5	\$4,467 (2026)	3%/yr
7	Tract D Maintenance	5	\$7,000 (2022)	3%/yr
8	Tract B Tables		\$3,710 (2027)	
10	General Signage	5	\$636 (2026 Estimate)	3%/yr
11	Mailboxes	30	\$17,041 (2027)	

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 amount in the reserve fund was \$50,173 as of 8/31/2022. An additional \$15,000 will be moved from the Operating Account to the Reserve Account later in 2022 to bring the Reserve Account to a total of \$65,173 (plus any accrued interest). No further reserve fund expenses are expected for 2022.
- c. The current contribution is \$181 per year per homeowner or approximately \$15,000 total annually, a contribution rate of 36%.
- d. The contribution may vary year over year. It is intended that part of the surplus or unallocated funds left at year-end in the operating budget would incrementally be contributed to the reserve fund.
- e. With effective bidding of work, the reserve fund will benefit from costs below those projected. Conversely, if the current higher inflation rates continue, there may be a need to increase contributions and dues earlier than planned.

Reserve Funding/Projections

Roadway maintenance is the largest expenditure that we incur. The developer did not build the roads to Pierce County standards and therefore, the county did not assume ownership, leaving the task of maintenance to the HOA. Under the current proposed plan, we began a program of repairing potholes/major cracks every 3 years in 2021. We have used a 5%/year increase for the study based on current budgetary estimates and observed inflation rates. In addition to the repairs, we plan to sealcoat the roads every 5 years beginning in 2023 with an estimated cost of \$62,700 (budgetary quote) and an annual increase of 5%. Those two combined, amount to \$963,000 over the next 30 years.

Other large expenditures will be Mailbox replacement in 2027 (\$17,000), resurfacing of Tract D and the Playground every 3-5 years (\$30,000 expense in 2037).

The primary income the HOA has is from the annual homeowner dues. Currently, this is at \$500/year with approximately \$181 of that going to reserves. Assuming general operating costs to increase due to inflation at a rate of 2% annually and no increase in dues, that contribution will decrease every year. At this current amount, the HOA will run out of funds after year 2026 and never recover (expenses will outpace income every year).

The PRRHOA Board of Directors is proposing to increase the HOA dues to \$700 beginning in 2025. In order to keep the reserves fully funded to meet the future costs, the dues will be increased again in 2027 to \$800 and again in 2035 to \$900. These increases will assure that we would always have enough funds to cover the projected expenses and build a surplus.

Six-Year Reserve Account Estimate, End of Year (At Proposed Contribution)

Activity	2023	2024	2025	2026	2027	2028
Total Projected Costs, \$	67,700	18,658	-	8,141	47,710	83,373
Total CD and MMA Reserve Funds, \$	65,316	12,025	7,234	37,148	58,357	47,723
Additions – Dues & Oper. Surplus, \$	14,409	13,867	29,914	29,351	37,076	36,489
Total Reserves at Year End, \$	12,025	7,234	37,148	58,357	47,723	839

Dues Distribution Between Expenses and Reserves (per Owner)

Activity	2023	2024	2025	2026	2027	2028
Calculated Amount to Reserves, \$/yr	174	167	360	354	447	440
Projected Routine Expenses, \$/yr	326	333	340	346	353	360
Total Dues, \$/yr	500	500	700	700	800	800
Dues Allocated to Reserves	35%	33%	51%	51%	56%	55%

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.

As required by state regulation RCW 64.38.070, the following required disclosure is made:

"This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair, or replacement of a reserve component."