

Westmorland Owners Association

Reserve Study

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Introduction:

The objective of this reserve study is to determine the amount of financial savings required to repair, replace and restore capital components. There are four capital items for which the Westmoreland Owners Association (WOA) is currently responsible. They are the entrance sign, the playground set, the street signs and the fence in the open area bordering route 199. Not included in the study, are the two BMPs which are still under the responsibility of the developer, Charter LLC. However, their potential impact on the financial reserves is discussed.

A reserve study is required under State Code and should be reviewed annually.

The WOA Board initiated a Reserve Fund in 2012 with the transfer of \$1,000 into a separate savings account. This will require Board action to expend funds from this account for the purpose of repairing or restoring the capital components.

Summary:

The amount of annual reserves estimated for full funding is estimated to be \$875 per year for an estimated average inflation rate of 2%. The maximum amount in the reserve fund is estimated to be \$10,337 which occurs in 2026. This total includes the \$1,000 deductible for the current insurance coverage.

It is recommended that \$900 be the annual addition to the reserves. This has a minor effect on the reserve total, but is simpler to remember and calculate.

Routine repairs are not included in the reserves and are expected to be part of the annual maintenance budget. However, the refurbishing of the entrance sign is included in the reserves since it has known costs and timing.

Discussion:

All four capital components are insured with a \$1,000 deductible. The fence along Route 199 is particularly susceptible to damage from wind storms and there is some risk of storm damage to the playground set. This deductible is included as a financial liability in the reserve fund.

Following is a discussion of the individual capital components and the assumptions for each.

Entrance Sign: The costs and remaining life of the entrance sign was obtained from Wright Signs who made the original sign and refurbished it in 2011.

The brick was painted when the signs were in the shop. The estimated life of the 4 polyurethane signs is 20+ years and they recommend they be refurbished every 5 years.

Wright Signs estimated the cost for new signs in 2012 at \$3,800 and refurbishing costs of \$1,200. Both costs are included in the reserve fund.

The life of the brick wall is assumed to be indefinite, only requiring periodic cleaning and painting.

Street Signs: The street signs were purchased and installed under the supervision of Tim Cote', a member of the WOA, in 2011. Tim estimates the life to be 25+ years with proper maintenance of cleaning, painting and repairing any damage. The total costs, labor and material, of the street signs were \$3,130.

The street signs are commercial grade, made of metal, and should require little maintenance.

Playground Set: The playground set was designed and purchased by Tim Cote'. Total costs are not available since it was assembled by volunteers from the neighborhood in 2011. Tim estimates the life of the set to be 15+ years.

As an alternative, a play set from Kids Creation, Richmond VA was selected as a basis for a cost estimate. They have a wide variety of playground sets and one of the more expensive was chosen. In the future, the particular play set could be selected based on the neighborhood desires and demographics at that time.

The 2012 estimated cost, labor and material, for an appropriate play set is \$3,500.

Fence: Our experience with the fence has been storm damage and minor repairs to the fence boards and posts. It is assumed that the fence would be continuously restored by repairs over time and that a complete replacement would not be needed. In the case of major storm damage, our insurance would cover the repair costs. The fence is approximately 1900 feet long which was given to the insurance company when the current policy was written.

Repair costs for the fence have been approximately \$300/year which includes repairs caused by trees falling across the fence as well as storm damage and miscellaneous repairs.

It is assumed that the continuous repair of the fence will not require any monies from the reserve fund.

BMPs: The BMPs are still the responsibility of the developer, Charter LLC and will be turned over to the WOA after they have been brought up to standards as determined by an inspection by James City County. When they are turned over to the WOA, the James City County authorities will advise the WOA of the maintenance and other requirements to keep them up to standard. In addition to keeping vegetation from weakening the dams, periodic inspections to ensure the integrity of the dams is required.

A possible financial cost could be the concrete over flows. The overflow on the BMP between Gentry and Westmoreland was repaired in 2011 and is not expected to require any repairs in the future. The concrete overflows have an indefinite life and should not require replacement which can be the case with metal over flows.

Silt build up can be a problem with BMPs, however there is no indication that silt is building up in ours. Based on discussions with other neighborhood associations with BMPs, none have had to dredge theirs after over 20 years of service.

Calculations: The attached spread sheet shows the calculation for the annual addition to the reserve fund to fully fund the reserves. It covers 25 years which is the longest expected life of the capital components. All capital components have been either repaired or replaced in 2011, thus no expenditures from the fund will be needed until 2017 when the entrance signs are refurbished.

There are no requirements in the State Code for funding the Reserve Fund, only that a study be made. However, it is recommended that the WOA fully fund the reserves because the WOA has a relatively small capital component when you compare it with others who have swimming pools or golf facilities.

The attached spread sheet estimates a total capital fund reserve of \$21,864 at an average 2% inflation rate. Dividing this over 25 years gives an estimated annual addition of \$875.

A table with the reserve additions and expenditures for each year was made to verify if the annual addition of \$875 is adequate to fund the estimated future expenditures. It is shown on the table on page two of the spread sheet.

The table shows that an annual contribution of \$875 to the reserves should be adequate to cover the replacements costs at their minimum expected life. If any one of them exceeds their expected life, the reserve will have excess monies. If the replacement costs are more or less than estimated, the reserve fund can be adjusted.

The table also shows that at the \$875 contribution level the fund will be at its lowest in 2037 the last year, \$885, which is barely enough to cover the insurance deductible. However, this is considered sufficient since it is a minor amount and there would be sufficient funds in the general fund to cover this or other contingencies.

A table was also constructed for an annual contribution of \$900 to the reserve fund. This would be sufficient to cover the insurance deductible in every year.

For comparison, calculations were made for an average inflation rate of 3%. At the 3% rate, the estimated annual contribution would be \$1,050. This calculation is not included but is available upon request.