

Guidelines For Development of Reserves Studies for Capital Components

What it Means for Us



30 May 2023

Purpose

Wateredge Estates Homeowners Association, Inc.

- To review and summarize Virginia “Guidelines For Development of Reserves Studies for Capital Components” (Sept 5, 2019)
- To outline basic requirements for Wateredge HOA and provide a plan for meeting them

Background

Wateredge Estates Homeowners Association, Inc.

- Guideline published by Virginia Dept. of Professional and Occupational Regulation, Common Interest Community Board in 2019
- Purpose – To provide guidance to those who manage owners' associations that are responsible for upkeep of common property
 - Defines Capital Components as real items that the association is obligated to maintain, repair, or replace
 - Specifies requirement to conduct Reserve Study
 - Discusses need to establish a Reserve Fund
 - Does not prescribe or regulate how to conduct Reserve Study or determine adequate funding for Reserve Fund

Reserve Study required by Virginia Law

Definitions

- Capital Components – items that the association is obligated to maintain, repair, and replace
 - WEHOA Components: e.g., fencing, signs, stone wall at entrance, etc.
- Reserve Study – study conducted to determine necessity and amount of reserves required to repair, replace, and restore capital components
 - Conduct at least once every 5 years
 - Review at least annually to determine if reserves are adequate
- Reserve Fund – funds in reserve set aside for the dedicated purpose of paying for cost to repair and replace capital components
 - Guard against financial shock when repair or replacement is needed
 - Reduce need to impose special assessments on members
 - Separate from operating funds

Reserve Study – Two Components

Wateredge Estates Homeowners Association, Inc.

- Physical Analysis
 - Identify components and specify quantities
 - Inspect components
 - Determine useful life and assess remaining life / replacement year
 - Determine cost of replacement
- Financial Analysis
 - Determine funding goal
 - Calculate replacement fund liability
 - Project reserve fund income & expenditures over timeframe
 - Finalize Reserve Study to inform association budget

“Communities operating without a reserve study are not in compliance with Virginia Law” (p.6)

WEHOA Status

Wateredge Estates Homeowners Association, Inc.

- We have never completed a full Reserve Study
- While we maintain reserves, we have never established a dedicated Reserve Fund
- Should conduct and complete WEHOA Reserve Study in time to inform 2024 budget
- We have the latitude to tailor our study and reserve fund to fit the unique needs and character of our community

Road Ahead

Wateredge Estates Homeowners Association, Inc.

- WEHOA Board passed motion to conduct reserve study and to establish a separate reserve fund (BOD Meeting 3/9/2023)
 - With few capital components, scope of required reserve study is manageable
 - Due to resident expertise (engineering, financial, analytics) within our community, the study can be conducted in-house – no need to pay a management firm
 - Need to define operating fund vs. reserve fund expenses (p.5) to conduct reserve study – e.g., is landscaping operating or reserve fund?
 - Will require continued guidance, support, & involvement of board and community
- Complete WEHOA Reserve Study by 1 October
 - Establish Reserve Fund as part of 2024 Budget based on study

“The goal is to put the community on a stronger financial footing for current and future residents.” (BOD 3/9/2023)