

Reserve Funding for Capital Projects

Strathmeade Square Community Association (SSCA) capital projects address such areas as repaving parking lots and paths, drainage problems, sidewalk replacement, pool/pool house repairs, etc. They are paid for out of SSCA reserve funds. The Virginia Property Owners Act requires that every five years an association must:

“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 as defined in § 55.1-1800; and Review the results of that study at least annually to determine if reserves are sufficient; and Make any adjustments the board of directors deems necessary to maintain reserves, as appropriate.”

The SSCA reserve study was last conducted in October 2021.

Normal Funding Mechanism

- SSCA’s fiscal year (FY) runs from February 1 to January 31.
- For each FY the SSCA covenants allow the annual assessment for each property, normally paid in 12 monthly installments, to increase in conformance with the rise of the Consumer Price Index (CPI) based on what it was for the previous month of July. For example, the July 2023 CPI was 3.2%. Thus, the FY 2024 regular monthly assessment for each property will increase from \$131.60 to \$134.81.

The annual assessment pays for operational expenses and the reserves set aside. Last year the budget set aside \$104,400 for reserves after all operational expenses were covered. After reserve expenditures, the total reserve funds will be approximately \$118,000 at the end of FY 2023. While the budget is not finalized for 2024, it is expected that the reserve set aside amount will be similar after all operational expenses are covered. For 2022-2029 the reserve study recommends:

Year	Reserve Contribution
2022	\$134,000
2023	\$178,000
2024	\$222,000
2025	\$266,000

Year	Reserve Contribution
2026	\$310,000
2027	\$240,000
2028	\$248,400
2029	\$257,100

Given the constraints of the Covenants that only allow a CPI increase, due to ever increasing operational expenses SSCA will be unable to cover the recommended reserve balances and expenditure for FY 2024 and future years.

Options to Cover the Reserve Delta

- Raise the annual assessment beyond the CPI to create a new base, or
- Conduct one or more special assessments to cover specific areas of capital improvements.

Either option requires approval from two-thirds of the members voting. To hold a successful vote, there must be a quorum of 60% of the members. At a subsequent meeting, if held within 60 days of the first one, the quorum is half of that of the preceding meeting.

Special Assessment to Cover Climate Related Issues

Based on feedback from the community received at last year's annual meeting that a special assessment was preferred over a raise in the annual assessment, such an assessment is being considered to cover reserve expenses related specifically to climate issues which, according to the reserve study, will encompass over 18% of our future reserve needs. Over the next five years the study estimates this will equate to approximately \$184,000, with substantially more required in future years. Unfortunately, expenses are expected to be even greater than those in the reserve study since issues not covered in the study have been identified, and the study used a 3.5% inflationary rate which did not factor in the higher inflation rate of the last couple of years.

Doing a special assessment to address some of the climate related issues now will tackle property damage issues sooner, especially given the accelerating impacts of climate change. It will also allow a greater proportion of the normal reserve fund set aside to be used for other critical capital improvements, though SSCA will still be in a substantial deficit from that recommended as the set aside from the study.

Expenditures for the FY 2024 Special Assessment

While the final project list and associated costs for this special assessment is being finalized, specific projects being considered are:

- Addressing run off and flooding behind Applegate Court
- Addressing run-off and flooding issues between Ledbury and Applegate Courts
- Continue addressing Victor run-off and flooding
- Continue addressing Breckenridge flooding
- Riparian drainage plantings throughout the community
- Infrastructure for placing electric vehicle charging stations at the Pool House

The cost for these projects is estimated to be between \$150,000 and \$200,000. This would equate to a one-year special assessment for each home of between \$41 and \$54 per month in addition to the normal monthly assessment.

Way Ahead

For all funds to be committed within the assessment year as required by the Covenants, the first vote for a special assessment will be held later this year or early next year since our next fiscal year is from February 1, 2024 – January 31, 2025. A notice of the meeting to vote for the assessment with the particulars of what the assessment will cover will be sent at least 30 days ahead of the scheduled date in accordance with the Covenants.