2020 Budget Process Comments

Description

by Lloyd Sherman, October 5, 2019

Overview

First, let me begin with a bit of good news from my perspective. The board did a much better job this year in vetting the budget, asking questions, and where necessary asking for more information. This improved the overall process dramatically. The work done this year should carry over into future years and this process will be much improved. It is a job well done on that front, but much work remains ahead of us to repair the broken funding model for our current and future infrastructure requirements.

General

Many of the budget projections were being made based on data through 7/31/19. Best practices would require budgets based on data through at least three quarters. Unless adjusted with data through the 3^{rd} quarter, budgets are likely to be misstated. Too many of the comparisons continue to be the previous year budget versus current year budget instead of current year actual expenditures versus the current year budget. Best practice processes require future budgeting to be presented after the 3^{rd} quarter results have been posted. Approval of fee schedules can and should be presented utilizing the current timeframe and then included in the proposed budget.

We were assured last year that the format of budgets would be significantly changed and improved for the 2020 process. Again, a best practices process has not been followed. You simply cannot budget or assess accurately unless each operating unit is being tracked and reported in a standard P & L format. If this is being done, the details are not being provided to the general membership. A prime example is the Innovation Division or Food & Beverage. Development, P & I, Compliance, Tourism, Land Acquisitions and Real Estate Sales all need a detailed line-item budget as do each of the restaurants within the Food & Beverage. Until this is done, actual work-unit performance cannot be measured and critical information is easily overlooked.

Once again, and prior to presentations, no information was provided on ways to increase revenues. Instead, information about where increases will occur is based on increases in fees or rates. The broken revenue model has been kicked down the road long enough and must be dealt with. It's not enough to say you are going to achieve results without the detail of how to actually do so.

Compensation Overview

Compensation is 36.4% of projected **gross** revenues and based on most business models it should not exceed 30%. Additionally, the benefits ratio seems slightly high at 33%. This is the primary result of too many management personnel (higher compensations) and inadequate staffing at the worker level. This issue is in dire need of top-down evaluations of salaries and benefits by a reputable firm, based on the Arkansas job market.

Administration Division

The 2019 budget under projected bad debt by a staggering $1 million. Tracking this in 2018 clearly indicated that bad debt was running at $300K a month or more and the 2019 figure now seems to support that trend. While the budgeted amount for 2020 has been adjusted upward this escalating category should be very concerning on the overall impact to our operating capital.

<u>This unit shows they are adding 3 new PT positions.</u>

Innovation Division

This division name does not communicate the functions of this division. What does it even mean? It was described at the budget meeting of being "more of an R & D Division." We are a **maintenance organization!** Why do we even need R & D? That being said, this entire structure should be seriously evaluated. By their own forecast (which I believe to be low) they will lose $779K in 2019 and budgeted to lose $665K in 2020.

<u>The staffing matrix is very confusing but it appears they are adding a net of 4 PT positions.</u>

Public Safety

Based on POA numbers, revenues will likely be missed by $150K in 2019 so the projection for 2020 is likely understated. The narrative indicates increased revenues will come from new ambulance service billings but if new starts don't exceed our current level, it will likely only add $5K. It was announced that LifeNet did not increase our service contract this year.

Public Works

No comments

Public Utilities

A rate increase is being proposed for an operating unit that should be based on break-even rather than contributing positively to the bottom line. It is my opinion that because they can increase fees and not property owner assessments, this is being used as a substitute revenue generator.

Community Marketing

This cost center currently only reflects 3 people with annual compensation packages of $93K per person. This is a new department and it should be determined what their actual charge will be. We are even more concerned because we have yet to see the development of a true "marketing" function. What we have are just a few activities that include advertising, which is only one component of a marketing effort.

Lakes Department

We have another fee increase and no other details available about other ways our lakes could increase their revenue stream.

Food & Beverage

Food & Beverage division is predicted to lose $500K in 2019 and projections to improve that in 2020 are very unlikely. There appears to be a continued lack of focus on "fixing" this bottom-line draining division.

Golf Department

Projections indicate this department is on track to lose $2 million in 2019 and nothing in projected activity indicates the picture is likely to change in 2020. Rounds played per year are slipping and 2020 will most likely follow the same path. As our #1 opportunity to significantly impact revenues, I see no documented strategy for improving this picture and taking care of the infrastructure needs for this amenity, other than a recommendation to charge a $2.50 surcharge to be set aside in a special fund for infrastructure needs of golf courses in the future.

The lower head-count is disturbing. We were just told that Balboa needed to be renovated due to neglect and during the same conversation, there were indications that others are headed down the same path. How much more neglect will happen with lower staff levels?

Recreation Department

With all the amenities managed through the department, this is a clear case for individual operating P & L's to evaluate future activities and required changes.

Conclusions

The budgeting process in the past has had the appearance of being a required exercise instead of a critically important best practices financial tool. The beginning stages have taken a huge step forward this year and hopefully will continue into future years. The development of a Finance Committee reporting to the board will assist in completing this transition. Another huge issue again this year is that we have a broken funding model that requires a strategic “Revenue” plan. Concerns have been issued on several occasions that we just don’t have funds available for new projects or to fund items such as the Balboa Golf Course renovation. We simply cannot move forward with future infrastructure requirements without a plan to significantly increase the revenue stream. The board took huge strides in bringing this to the forefront recently and recognition is only the first step. Now we have to develop and implement plans to positively impact our revenue stream.

Summary

HSVPOA’s Broken Funding/Revenue Model is the elephant in the room

In closing, budget discussions cannot be absent from the elephant in the room. We have a broken funding model, or a broken revenue model if you prefer and while it was addressed during the discussion stage by the board, 2020 will be absent any organized overall marketing program that will fix our issues long-term. Baby-steps were taken this year in the budgeting process with the formation of the Ad Hoc budget committee. In the long-term, in order to assist the budgeting process and address the potential lack of the Board’s financial knowledge, the development of a Finance Committee is important. The same concept needs to be implemented for our long-term revenue requirements by forming a property owner Marketing Committee. We have property owner expertise available in the Village and much like it was used for the budget committee, it must be utilized to help fix our revenue funding model. That process may include a strategy that includes future assessment increases. But today’s climate will remain resistant to assessment increases without fixing the broken revenue model as well as actions taken to show that current spending is being done prudently and efficiently.

2020 Plan in a Nutshell

- 1.1% CPI increase to assessments
- $2,855 increase in new construction permit fees to builders
- 20% increase in permit & inspection fees
- 2.7% increase in sanitation rates

- 3% increase in utility rates
- 5% or more increase in boat fees
- $2.50 per round surcharge on golf
- Increase in Discovery Pkgs (Pass-through revenue)

Some other programs were suggested but were not supported with specific plans on how to accomplish them.

Budget projection worksheet will be supplied at a later date as there is currently a version 3 of the proposed budget in process.

By **Lloyd Sherman**, October 5, 2019

Max Pixel

Category

1. HSVPOA Financial-Real Estate

Tags

1. hot springs village
2. hot springs village arkansas
3. hot springs village board of directors
4. hot springs village bod
5. hot springs village budget
6. hot springs village financials
7. hot springs village golf
8. hot springs village lloyd sherman
9. Hot springs village people
10. hot springs village poa
11. hot springs village property owner
12. hot springs village property owners
13. Hot Springs Village Property Owners' Association
14. hsv budget
15. hsv financials
16. hsv poa hot springs village poa

Date Created
10/05/2019
Author
lynn