



Don't Rush Balboa Project

Description

To: HSV Board of Directors

From: Chuck Alvord, HSV resident

Date: September 15, 2019

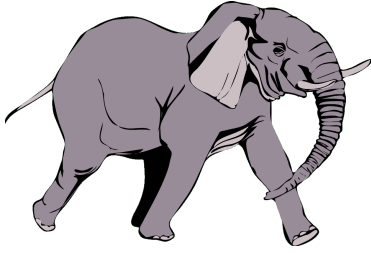
Re: Balboa Golf Course and Clubhouse Project

Dear Board of Directors,

Please, please be careful

This is a huge project beyond our financial capabilities. The proposed Balboa Golf Course and Clubhouse project information is a collection of ideas, not a plan. Nothing has been finalized, costs have not been investigated and financing feasibility is at best questionable. Financing costs and operating costs have not even been considered. Committing the POA or POA assets to this project on that basis would not be prudent and could catastrophically lead to bankruptcy and/or incorporation.

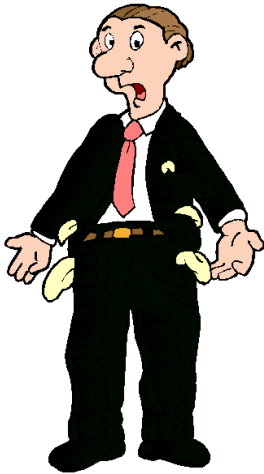
Authorizing the POA to proceed with killing the golf course grass commits the POA to the full golf course renovation currently envisioned as costing \$6.4 million. If costs turn out to be higher than expected, or needed financing is not available at acceptable terms, the golf course will have been destroyed and the POA may be committed to a project we can not complete.



The elephant in the room is that the costs of the project recommended by staff will overextend the POA to the extent of precluding other important projects that are being planned or may come along.

That includes the ability to obtain emergency financing in the event of any disaster. It seems we have totally forgotten the devastating [2012 tornado](#), the **ice storm** a few years prior and the unforeseen [Hydrilla invasion](#).

Financing



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NO \$\$\$

Plain and simply we don't have the money and there is no financing plan. All that has been suggested are naive and unfounded financing ideas. Proceeding without committed financing is irresponsible. We could spend hundreds of thousands of dollars only to find out we can't complete the project. No new sources of revenue would be created and any increased revenues are 100% speculative, unsupportable and gambling property owners' funds.

The following suggested financing sources are amateurish speculations and not options:

- Revenues from a golf surcharge would not be collected until after they were needed. The amounts they could generate are pie in the sky speculation that could just as likely result in decreased golf revenues.
- Revenues from increased assessment fees resultant from encouraging owners of vacant homesites around the Balboa Golf Course to build would similarly not be collected until after they

were needed and are another pie in the sky speculation. \$40,000 per year of those envisioned revenues erroneously depicts the POA selling the same lots every year (not a confidence builder).

- Significant revenues from gifted funds, donations and sponsorships are untested pie in the sky.
- Using existing capital is using funds slated for other purposes, aka robbing Peter to pay Paul, forcing us to borrow more money for those projects.

More realistic options would normally include the following but in this case are problematic:

1. Substantially increase assessment rates or a one-time assessment. An assessment increase would not provide funds before they were needed but could be used for debt servicing. Neither will likely pass a vote of the property owners so it is immaterial.

2. Third-party financing. The problem with financing is that it incurs interest and must be repaid. Neither has been considered. Repaying a \$4,600,000 ten-year fully amortized 7% loan for the golf course only, requires \$53,410/month, or \$640,000/yr, debt service. Where would that come from?

It may not matter. Lenders will have these same concerns and it is doubtful such financing will be readily available at affordable terms or without collateralizing/pledging and risking other POA real assets. Pledging would be akin to selling POA assets (buildings, golf courses, lakes, etc.) and I don't believe could be done without property owner approval.

Golf Course

The Balboa Golf Course is an active, playable, popular golf course. The golf cart paths are in poor shape but that is a stand-alone issue. The grass may not be pure, but it is far from "contaminated" and no worse than most courses.

The major issue is the sprinkler system needs frequent repairs which have been estimated at less than \$30,000/yr although the POA isn't giving us the actual numbers. We're told we need to replace the entire sprinkler system which requires tearing up much of the golf course so we'd be smart to just replace the entire course at an estimated cost of \$4,600,000. Spending \$4,600,000 to save \$30,000 per year doesn't seem so smart. As calculated above, financing the \$4,600,000 costs us \$640,000/year in [debt](#) service to save maybe \$30,000 a year in maintenance costs. Brilliant!

All that really needs to be done are repairs to the cart paths and to keep repairing the sprinkler leaks/breaks as we have been doing for years. The "all or nothing", no other options hard sell is unwarranted. There are always alternatives.

Clubhouse

We are currently using around 5,000 square feet of the Balboa Clubhouse's 21,000 square feet. It may seem a good building but in today's Village it is poorly located for anything other than a golf course clubhouse and the configuration is impractical. Unused buildings are far from free to own. The unused space has been vacant for 7 years while we subsidize about \$4.05/sf or \$85,000*/yr in operating costs on a mostly vacant building.

Renovation of the existing clubhouse is estimated at \$3,000,000-\$5,200,000 after which it will still be an unrentable, poorly located facility for anything other than a golf course clubhouse with the same \$85,000 operating costs to subsidize. Gratuitously making it available to clubs, groups or others will about double the \$85,000 */yr operating cost subsidy to cover the added costs of things like increased utilities, maintenance, on-site supervision, and daily janitorial services.

If we do anything to the clubhouse, right-sizing it to about 5,000 square feet makes the most sense but the exact use first needs to be defined to determine the right size.

****At the August Board meeting CEO Nalley stated annual operating costs were currently running \$85,000/ yr (\$4.05) sf) on the existing Balboa Clubhouse. Such costs normally include taxes, insurance, utilities, janitorial, normal maintenance, supervision and similar. Major repairs and replacements are normally additional.***

So again I ask, please be careful

This project is a big deal that will affect everyone in the Village for years and could be a disaster. It is not an emergency and there is no real urgency.

Thank you for your consideration.

by Chuck Alvord, September 15, 2019

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