Hot Springs Village – Are FRATF’s Projections Understated?

Description

By Chuck Alvord, August 14, 2021

Are the Projections of the Future Revenue Analysis Task Force (FRATF) Understated?

After attending all the FRATF public meetings and town halls, listening carefully, reading all materials they have provided, and asking questions when appropriate, I am left with a concern. **FRATF’s projections are understated.**

The Task Force has worked incredibly hard digging into our deferred maintenance which they seem to have primarily focused on. My concerns involve it’s cost projections on other areas. **It isn’t enough**. All costs have not been considered. [Click **here** to view FRATF’s recommendations.]

I normally don’t “do” social media so my thoughts are my own. I believe FRATF has only included what it considers bare-bones costs and additionally has underestimated those.

I don’t see why anyone would want to even try to run the Village at bare-bones costs. Bare-bones costs are by definition inadequate to maintain what most of us moved here for and love about living in the Village. FRATF’s projections don’t show much detail but I calculate up to **$10 million/year or more shortfall**. Read the following and decide for yourself:

1. Yellow and Green Blobs. FRATF tells us we need $3 million/year for medium and low priority capital expenditures but never considers their eventual funding. Potential additional cost: **$3 million/year**.

2. Wage competition is not addressed. The biggest elephant in the room is that our current wage scale seems competitively deficient and unsustainable. If by FRATF’s estimation, each $1/hour increase in average wages costs us $1.5 million and we are $2 low, we need $3 million/year additional revenue to cover it. Potential additional cost: **$3 million/year** or more.

3. Inflation. Cost increases are projected at only 3% rate with the CPI at 5.8% and higher inflation a concern. The 2.8% difference amounts to an increase of $1.26 million/year on $45 million/year

currently projected total expenditures. Potential additional cost: **$1.26 million/year** or more.

4. Operating expenses (including wages) are by far our biggest nut at about $32 million/year although FRATF's chart makes them appear much less. That's over 3 times the amount of the Big Red Blob we seem primarily focused on.

5. "Known Unknowns." Normal forecasting practice is to at least estimate the timing and costs of future expenditure requirements. With increased growth we are suddenly talking about road widening, increasing sewer and water capacity and construction vehicles damaging our roads. We also know major building and golf course repairs and renovations are coming and that new roads and utility installations may be required. Funding has also not been considered for the Known Unknowns in FRAFT's projections. Potential additional cost: up to **$2 million/year** or more (annualized).

6. Surprises. Stuff happens. Emergencies, disasters, unforeseen major expenditures, unanticipated capital projects, and so on. You name it! Some money gets wasted in any organization.   Who anticipated we would need to spend $1 million on a new trash collection system this year? Potential additional cost: up to **$1 million/year** or more (annualized).

7. New and upgraded amenities, facilities, and services aka the niceties of life. Once again, no funding has been considered in FRATF's projections. We seem to have adopted a subsistence mentality for planning purposes.

8. Reserves and credit lines have been suggested to fill emergency/surprise needs and some of the gaps. They can help with cash flow but nonetheless need to be replaced or paid back.

Bond Financing

FRATF mentioned 3% bond financing is available and left it there. Instead of taking years to correct deferred maintenance we could issue a bond(s) and have the funds to quickly catch up with deferred maintenance while we take 5 years, 10 years, or whatever we select, to pay off the bonds. Such bonds are commonly used by municipalities for such purposes e.g. infrastructure maintenance and improvements for future benefit. Developers use bonds to build entire communities. Bonds have the added benefit of protecting the funds from being used for other purposes. The POA successfully used bond financing to finance our 2016 wastewater (sewer) facilities. We are remiss to disregard bond financing without at least considering it.

Monthly Assessments

Monthly assessments should be based on projected costs to at least maintain the quality of life the Village was intended to offer. FRATF's recommendations won't. FRATF's 2022 recommended monthly assessment increase for improved properties is less than $6 more than our scheduled CPI increase.

We need to quit kicking the can down the road and get on track to start solving our problems now – not two years from now as the Task Force recommends. With too tight a budget we will be back to dipping into maintenance funds as soon as the next unforeseen outlay arises, or we see a new shiny object we want.

Nobody wants to pay more but any assessment rate we are likely to consider will be more than paid for in increased property values and is the best investment any of us could make. Tapping the Village's potential requires Property Owner investment. Low current assessments scare savvy buyers that realize it reflects financial problems and poor management. It will also scare experienced general managers away. We should probably seriously question any general manager candidate it doesn't concern.

We, as individual Property Owners, will never agree exactly what our assessment amounts should be. That's why the Board of Directors is charged with making knowledgeable determinations of what is in the best interest of all the Property Owners.

Personally, of the three proposed assessment options, I feel Option 1, the Rapid Recovery Option, is the only acceptable option but the amounts of assessments need to be increased to start at no less than $100/month for improved properties and $50/month for unimproved properties. Our assessments will still be a bargain compared to any similar association and they will be more than paid for in increased Property Owner equities. These rates may still not cover everything but with anything less, we will never get in front of maintenance, and the POA will be back for another increase within a few years.

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Editor's Note – Your Voice Matters

Next week on Wednesday, August 18, 2021, at 9:00 a.m. the Hot Springs Village Board of Directors will hold it's regular monthly meeting. The meeting location is the Ouachita Room at the Ponce de Leon Center. The meeting may be attended in person and also be viewed live stream **here** on the Official Hot Springs Village POA YouTube channel. If you would like to rewatch the meeting, the recording can also be viewed **here** on YouTube. At this meeting, the Board will vote on whether to have a Property Owner vote for an assessment increase and what option from FRATF's recommendations it will use. Of course, the Board could also go with a different option or a variance of FRATF's recommendations. We strongly urge all Property Owners to review the three options FRATF presented to the Board by going **here**. **Please be sure to let the Board of Directors know your thoughts on this very important matter.** The Hot Springs Village Board of Directors may be contacted by email at the following email addresses.

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Thank you for reading. If you like, please comment below.**We love to hear your opinion, but comments must be made using your first and last real name, or they will not be accepted.** If you would like to submit an article for publication, please contact us through this website. Be sure to bookmark this website. Click **here** to visit the Hot Springs Village People Facebook Group.

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