



Hot Springs Village – What You Should Know about the 2022 Budget

Description

By Lloyd Sherman, October 19, 2021

WHAT YOU SHOULD KNOW ABOUT THE 2022 BUDGET

Version 1 (V.1) of the 2022 budget was released to property owners this morning. The POA Board plans on approving this budget and the associated fee schedule this coming Wednesday. A Version 2 (V.2) is sitting in the wings waiting for the results of the assessment increase vote. Based on comments made in Discussion Sessions the only difference between the two versions is that V.2 will contain items to be expended if the increase is approved. While that sounds promising, the focus here will not be on V.2 but on V.1.

The first thing that struck me was that all projections for 2022 are based on data up through 7/31/2021. I recognize they needed a starting point, but budgets should be set up and approved based on the most current information available. This was an issue in the generation of the 2021 budget and it still remains an issue.

I have taken the time to perform a cursory review of the budget and I find some very disturbing details, but let me take a minute and explain the columns on the attached spreadsheet.

2022 Budget – These are the numbers taken directly from the proposed budget that was released this morning. Only the net numbers are being reported. Revenues – Expenses = Net.

2021 Forecast (1) – Again, these numbers come directly from the budget released this morning.

Difference – This is nothing more than the difference between 2022 Budget & 2021 Forecast.

2021 Forecast (2) – These are numbers projected through 2021 using the actual P & L's for the period ending 9/30/2021.

Now let's look at each of the line items:

ASSESSMENTS – As you can see the July numbers project collected assessment pretty close to the

data of 9/30/21. However, it should be noted that these numbers do trend downward. For instance, 2021 projections are **\$578,142** lower than they were in 2020. This has been pointed out in Bad Debt explanations previously.

ADMINISTRATION – This will likely be confusing for some. The PPP funds were recognized as revenue in the Administration area instead of something like Other Income. This skews the numbers where it becomes difficult to assess how this area is doing from one year to the next. Bottom line is that this function is projected to have a negative number of **\$2.1 mil** in 2022. This is generally the case as this function is not a revenue center but rather a cost center. This general line item is comprised of Admin., IT, and HR.

INNOVATION – This line item is comprised of departments named Development, Permitting and Inspection, and Tourism & Discovery. The 2022 budget is projected for this cost center group to cost **\$1,854,398** vs the projected negative number of **\$1,765,121** in 2021.

PUBLIC SAFETY – This line is comprised of Police, Fire, Ambulance and currently Animal Control. You will note that the 2022 numbers indicate these cost centers will cost an additional nearly **\$750K**. Based on turnover and comments received especially on Police and Fire, our turnover has been extremely high due to our salaries being less than surrounding areas. This has been in need of a fix for some time now, but **\$750K** sounds excessive.

PUBLIC WORKS – This line is comprised of Sanitation, Street Maintenance, Building Maintenance, & Fleet Maintenance. What is confusing about this line item is that based on 9/30 numbers, this group will lose **\$410,351** in 2021 but is projected to lose **\$1,655,832** in 2022. Yet V.2 will have minimum impact on compensation, which seems contradictory to a **\$1.2 mil** increase from one year to the next.

PUBLIC UTILITIES – This line is primarily represented by water-related functions. The only cost center that actually produces a profit. None of the other major operating lines can tout positive results. Right now, it appears they will contribute an additional \$350K of positive results in 2022 with a projected budget of a positive **\$3,510.914**.

COMMUNITY, PR, MARKETING, LIFESTYLE – What a title! Especially when what it represents is F&B, Golf, & Recreation. Most are aware of what is going on with F & B and the projection for 2022 is that it will only produce a negative **\$91,827**. However, GOLF is being projected to move back past the **\$2 mil** loss category in 2022. It is currently projected to lose **\$788,779** in 2021, but with expenses planned for 2022 are now projecting for us to lose **\$2,347,742**. Pardon my surprise on this unit's projection, but I find this extremely unsettling.

RECREATION – is projected to continue as a losing unit at an even higher rate than 2021 adding an additional **\$300K** in losses in 2022.

GROSS REVENUE – The current 2022 budget is showing that total gross revenues are projected at **\$42,311,777**. Using the numbers from 7/31 would result in the year-end projection being **\$42,918,696**. However, if you project out the revenue number using 9/30 data it shows we will end the year with gross revenues of **\$44,478,151**. Now I know that the timing of how and when revenues are recognized would likely impact these numbers, the question should at least be asked. But here is the more puzzling factor. Let's say the 7/31 projections are more accurate and we are talking \$42 Mil (rounded). Something is not adding up. If the CPI number is the only increase that is provided this year, then that would increase revenues, by approximately **\$820K**. A buy-in fee has been added of \$1,500 per

existing home purchase. We have been experiencing about 650 units for the past several years. That adds an additional **\$975K**. A \$250 buy-in fee will also be instituted. We currently have sold over 200 lots this year, so using that also new lot sales adds another **\$225K**. This adds up to nearly **\$2.1 mil**. And this number doesn't account for the significant number of categories that will either receive an increase or have a new fee associated with them.

BAD DEBT – As has been pointed out before, the onset of the two-tier resulted in many properties being abandoned. Our current run rate is **\$5 mil**. Will the 5.8% CPI negatively impact these numbers? That is an unknown, just as the impact an assessment increase might have on these numbers. We saw what happened with the two-tier and I believe it is predictable that it will happen again.

EBITDA – Earning before income taxes, depreciation, and amortization. Using the 9/30 results, it would indicate we will end the year with a number in the **\$10,486,709** area. We really need to remove the PPP funds from this number to normalize the numbers. Taking out the **\$3,089,000**, that leaves us with **\$7,398,000** in round figures. And yet, the forecast for 2022 is **\$4,218,938**.

While there are several areas that should be looked at to determine exactly what is going on with this budgeting cycle, all you have to do is look to the compensation line to see that COMPENSATION is projected for 2021 to be a total of **\$16,416,242** but projected for 2022 to be **\$19,374,199**. A difference of **\$3,000,000** (rounded). Salaries have been an area of discussion for years and projecting an 18% increase in this number seems questionable.

If anyone is interested in knowing the answers to any of the numbers I have presented in this piece, you will have to take it up with the board. They apparently do not want to hear from me. One of the board members told me he was tired of my crap, while another recently resigned board member told me I should leave the Village, I see no reason to share my concerns with a board that doesn't want input from the property owners.

2022 Projections

[Lloyds-2022-Projections](#)

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Author

lynn

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