HSVPOA FRATF Report Analysis

Description

An Analysis by Andy Kramek, August 7, 2021

Finally, The Result is In (Pretty Much As Expected)!

I just finished reading the FRATF presentation to the Board and the reports of questions and answers (wonderful work on that part, Cheryl, thank you). A number of things jumped out at me.

Before we begin, the Mission Statement is worth repeating:
"*FRATF was given a task by the POA Board to analyze the past for lessons learned, our current budget, and most importantly, future financial requirements to sustain and maintain Hot Springs Village.*"

First, FRATF stated that they used historical data to model projected growth rates for revenue and expenses. Given the past history of money wasted on fanciful senior positions with exorbitant salaries, pipe-dream projects, and inept cost and contract management was that really the best basis?

Second I noticed the phrase **"*The Southern Region Consumer Price Index (CPI) is used by the Board Directors to calculate a yearly increase. This increase does not keep pace with expense growth.*"**

So, surely the key question is, why not? Just why have expenses in the past (and currently for that matter) been increasing so much more than revenue? I don't see anything that suggests anyone considered *why* expenses have increased so much faster than the CPI.

Third, they stated that:

"*Expense reductions, fee increases, and other revenue ideas do not solve the problem. Without an assessment change, you cannot get there from here.*"

I guess I just missed the part of the presentation where it was explained why expense reduction isn't the answer. Especially since in the “Expense Reduction” item in the presentation the only things listed are:

- Employ multi-year procurement strategy
- Buy used/leased vehicles
- Employ pooled equipment acquisition strategy

If implemented these would, according to FRATF, generate just $25k per year in savings. Admittedly that won’t do much to fix a $6.7M shortfall. However given that the $18.6M compensation cost is the largest single item in the 2021 budget, and is up by $1M from 2020, why is this not even mentioned, let alone addressed, anywhere? After all, it consumes over half of the total revenue.

Furthermore, the ‘Acceptable Fee ideas’, if implemented as proposed would only generate a further $1.4M per year. That raises a question in and of itself! How were these increased revenues from amenities calculated? If based solely on historical data they are probably over-estimating the amounts from Golf, Tennis, and other direct amenity usage fees. Was any account taken of the fact that experience shows conclusively that if you increase fees, even slightly, demand is reduced? This is especially true in the case (as in HSV) where the majority of potential customers are on fixed incomes. They have little, or no, ability to increase the amount of their disposable income so increasing fees for things that are optional inexorably leads to reductions in demand.

Finally, the bottom line is summed up nicely in this sentence:

“*The task force believes option 3 has the best chance of passing in a Property Owner vote.*”

In other words, in their opinion, it is not necessarily the “best” option, nor is it necessarily the one most likely to resolve the issues, it is simply the one that they believe they can get approved in a property owner vote!

So, as expected, the recommendation is for an immediate assessment increase, over two and a half times greater than the current CPI, each year, for the next three years! Owners of improved property will see an increase of $10.00 per month (14.44% in 2022) and for unimproved properties, the increase is $2.50 per month (6.25% in 2022)!

The cynic in me wonders if getting it through a property owner vote is also the reason why the increase for unimproved (i.e. largely non-resident) lots is just one-quarter of that for improved (i.e. mainly resident) lots? I could find no explanation as to how this differential was arrived at. Given current rates, one might have expected unimproved lot rates to rise by something closer to half that of improved lots.

FRATF also had this warning for residents if their proposed increase is not approved:

“*FRATF feels that without an assessment increase, our future is grim. We would be millions of dollars a year short of what is needed to keep the village what it is today.*”

However, that is only the monthly assessment. In addition to this, a buy-in fee will be introduced for new property owners, Amenity Fees will be raised and Utility costs will be increased by $3.43 per month (i.e. $41.43 per year). Therefore, the real increase in fixed costs that is being proposed for improved property owners (i.e. mainly residents) would be $13.43 per month (or 19.39%). After all, calling an extra $3.43 a “utility” increase doesn’t alter the fact that it pushes up the amount that has to be paid out as a fixed cost every month!

Interestingly, in addition to the increases above the FRATF also proposed a number of other changes:

Declarations:

- Remove the requirement for a property owner vote for assessment increases over and above the Southern CPI.
- Give POA right to declare certain properties as “unserved” areas. Would remove the necessity to provide roads and utilities to areas where no-one lives.

AUTHOR NOTE: So the first means no more of this nonsense of needing property owner approval to hike assessments by anything the POA wants! Thankfully this one failed in 2020 and is unlikely to succeed in the future either but there’s no harm in trying is there?
The second gets the POA out from the need to provide services in anything but the current served areas. But aren’t we trying to “add rooftops”? Wouldn’t this just increase the cost of building in anything other than currently built-out areas enormously?
Luckily these cannot even be put to the Property Owners until 2027!

Policy:

- Establish policy for funding earmarks and priorities for budget preparation that would commit Board to apply funding to those things identified in the seven year O&M plan.
- Implement an annual review for Grade 12 and higher employees.

AUTHOR NOTE: Does this mean that neither of these exists today? Surely they do?

Management/Contracting:

- Consider implementing performance-based management of certain employees
- Consider hiring professional contract specialist to ensure that the village obtains the best value in any contract arrangement.

AUTHOR NOTE: Again, do these not exist today? Note that the recommendation is merely to “CONSIDER” these things, not to actually do them!

Revenue Generation

- Explore sales of water/wastewater to entities outside of the gates.
- Encourage remedying the lack of convention hosting facilities (lodging).
- Investigate an endowment fund/donation mechanism to support the POA.

AUTHOR NOTE: Hasn’t the first already been tried? The second is just a thinly disguised “build a lodge” proposal and the third is just another way of asking for yet more of your money.

Anyway, for what it is worth, here is my opinion.

Despite all the research, effort, and verbiage this comes down, exactly as expected, to a significant hike in the fixed cost (on the order of 20%) for those living in HSV. Of course, as a non-resident property owner, my costs will only go up by $2.50 a month so I don't really care much. Except that I do!

I care because it does nothing to address the problems with cost management or the prioritization and control of spending that got us into this $6.7M hole to begin with. What they seem to have missed (and it was part of the Mission Statement) is how and why past policies and decisions created the "hole" in the first place. Was it just bad luck? Maybe it was poor management. Or was it attributable to specific individuals, actions, or projects? Without that knowledge, and the lessons learned from it, how do we know that we can avoid either enlarging the existing hole or creating a new one, in the future?

Upon reading this presentation it seems clear that FRATF was focused almost exclusively on justifying an assessment increase. Furthermore, in doing so they have clearly followed the time-honored pattern of all political proposals. They offer three options; two of these, when examined in detail, turn out to be totally unacceptable. So, in fact, they are really offering only one. In magic circles, this is called 'forcing the card'!

Also, all of their 'other proposed changes' are mealy-mouthed at best ("consider implementing…", "explore…", "investigate…", "encourage…")! I, for one, had hoped that the FRATF would have been more direct in terms of making recommendations to address the way the POA manages both its revenue and expenses.

Am I surprised? No, not really. It was pretty clear from the outset that the real job of the FRATF was to justify a significant assessment increase to residents!

Am I disappointed that a golden opportunity to do a deep dive into the way the POA is managed itself has been missed? Emphatically yes.

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Click **here** to read part one of Cheryl's report.

Click **here** to read part two of Cheryl's report.

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