



## Memo

**To:** Hot Springs Village Board of Directors  
**From:** Lesley Nalley, Chief Executive Officer  
**Date:** August 21, 2019  
**Re:** Monthly Board Meeting Updates

### YTD Financial Overview

Our overall YTD net operating gain before capital and depreciation is \$270k less than YTD 2018, some of which is planned deferred maintenance spending and some pointing to lower than expected amenity and water revenues. Utilities, golf and F&B revenue have been severely impacted by the wet conditions; i.e. 61 fewer playable golf days and 41.69 inches of rain. While weather is always a factor, at nearly half of our revenue budget there's no doubt we are a community deeply dependent on good weather and strong amenity usage. **It will be important to base the 2020 budget on a "normal" year, recognizing that each round missed or lost due to rain equates to an average of \$28.**

Some have questioned what they perceive as "beyond reach" revenue budgets and with some disappointing results this is an excellent time for a guiding philosophy discussion. While some prefer to prepare "safe" budgets, my approach is to reject mediocrity and push ourselves beyond where we've been, a critical element in addressing broken funding models. **Challenging but reasonable revenue projections are crucial, and we appreciate the related work of the 2020 budget advisory committee.** Together with our advisory committees, the team is meeting these challenges head on and, as you'll see in reports from Liz, Jason & Jamie, our bench strength and agility continues to improve.

**We remain on track to meet our equity and reserve enterprise goals. Although a long game, we are committed to pulling ourselves out of a deferred maintenance spiral while providing improved experiences at long neglected amenities. A sampling of YTD 2019 accomplishments includes:**

- **As of January 2017, 7 sewer lift stations were fully functional. Currently, 53 are fully functional.**
- **Amenity improvements completed or underway during 2019: Bocce Ball, outdoor pool, Woodland's sound and lighting, RV park, fitness equipment, Casa Coronado**
- **\$4.8MIL spent year to date on streets, buildings, water and wastewater**
- **Significantly improved course quality being reported by golfers**
- **Mapping and multi-year plan for proactive culvert repairs across 26,000 acres**
- **20% decrease in Administration and Sales/Mktg/Discovery subsidies from 2016 (Actuals: \$2.4M at July 2016 vs \$1.9M at July 2019); i.e. more spent on capital and reserves**
- **25% increase in spending for roads, water, sanitation and sewer from 2016 (Actuals: \$3.7MIL at July 2016 vs \$5MIL at July 2019)**
- **In August, Isabella became part of the Natural State Golf Trail with signage coming on I30**

### **Village Homes & Land**

- 3 builders guild presales closed; 3 under contract
- 3 non POA lots sold, 7 POA lot sold, **18 POA lots under contract**
- 2 existing homes sold, 1 under contract
- 69 referrals have been made to the Board of Realtors
- Buyers from IN, AL, AR, CA, NV, MD, TX, FL

The 2019 enterprise goals target selling 30 POA lots and adding 60 rooftops. As of July, there were 33 additional improved properties.

### **Gates & Visitor Usage of Amenities**

Today, Chief Ricky Middleton will speak about the two distinct enforcement options available - **law vs. policy**. We consider our gates to be a unique and important “amenity” and are committed to continually improving upon their security and functionality. This stance aligns with our Articles of Incorporation purpose and the CMPs acknowledgement of their importance to residents.

Rumors about current POA leadership looking to eliminate the gates or fail to staff them are false.

## **2020 STRATEGIES UPDATE**

As part of the annual enterprise goal setting process and the recently approved budget policy, strategies surrounding revenue, deferred maintenance and marketing were identified as priorities. During the Board retreat and planning meetings, committee meetings and staff meetings, consensus thoughts began emerging that are informing these strategies. Below I describe some preliminary recommendations and consider this board meeting an opportunity to offer direction to staff prior to us bringing forth the 2020 budget proposal.

### **Revenue**

We have four funding mechanisms: general assessments, amenity fees, service/utility usage fees and POA-owned lot sales. General assessments are insufficient and below market value. However, voters rejected giving the Board the authority to increase general assessments up to 5% annually without a property owner vote. This would have allowed a more gradual closing of the gap. We are at a crossroads between those who would like to see the community continue with its current amenity portfolio and those who feel we should be cutting expenses to include forgoing amenity replacements. The pool decision is a prime example of this ongoing debate.

**Due to our long-standing funding imbalance and a community divide surrounding the “right” funding level and amenity mix, staff do not recommend general or special assessment increase votes in 2020. We believe the best next step is to adequately communicate and categorize the various needs and facilitate a majority consensus, with property owner input through our committee structure. Given a clear understanding that our revenue to expense/capital gap will continue to widen by shear inflation, a vote of either a special assessment for specific uses (yet to be identified) or a general assessment increase should be considered for 2021, after the community has been well educated on the infrastructure needs, their input is gathered and a subsidy policy is established.**

**For 2020, we are proposing a mix of amenity sponsorships, golf surcharges, long term debt (Balboa course & clubhouse) and planned water rate increases to address operating and capital needs, as well as incremental revenue from new home construction.**

**AMENITIES ARE CENTRAL TO OUR FUTURE DECISIONS.** I recommend the Board consider and approve related amenity subsidy policies by April 2020 so that the 2021 budget can begin to more prudently guide such decisions and assessment revenue requirements are clear. **The CMP Advisory Committee could offer the board and staff tremendous expertise and assistance with this process.**

All property owners benefit from the community's amenities (as a whole), but not everyone applies the same value to each amenity and in some cases, no value at all. Additionally, we have a long history of people who don't live in the Village but financially support it and those who only use our amenities as a visitor. Currently, **more than half** of the community's assessment plus visitor usage fee revenues fall into this category.

With that said, as interests diversify, there must be a strategy around how and what we subsidize. **What percentage should users fund versus be considered "community value" to be funded by general assessments?** The Association has no policies around this equation. Because there is 80-100% turnover on the Board every three years and we've demonstrated for many years an inadequate funding model, it is difficult to implement or achieve any long-term amenity funding strategy, much less proactive capital planning. We simply cut or spend based on current sentiment and do little to address the underlying drivers.

As an example, a few years ago it was suggested that the golf subsidy should be cut to \$1M, targeting a reduction to \$1.5M by 2020. Having heard from our large-scale planned community counterparts that their average per course golf subsidy is \$250,000, there appears to be no way to achieve such an arbitrary subsidy reduction without closing courses and we all understand the significant ramifications of such a decision. **While everyone doesn't agree on the "how", usage must be increased as an alternative. My preference is to do so with a healthy mix of resident golf. To that end, I have directed two marketing strategy focuses for that purpose:**

1. **A residential marketing plan to drive build out of currently unimproved golf course lots**
2. **An inhouse visitor golf marketing strategy (with appreciation, our Troon marketing agreement will sunset December 31, 2019)**

### **Deferred Maintenance**

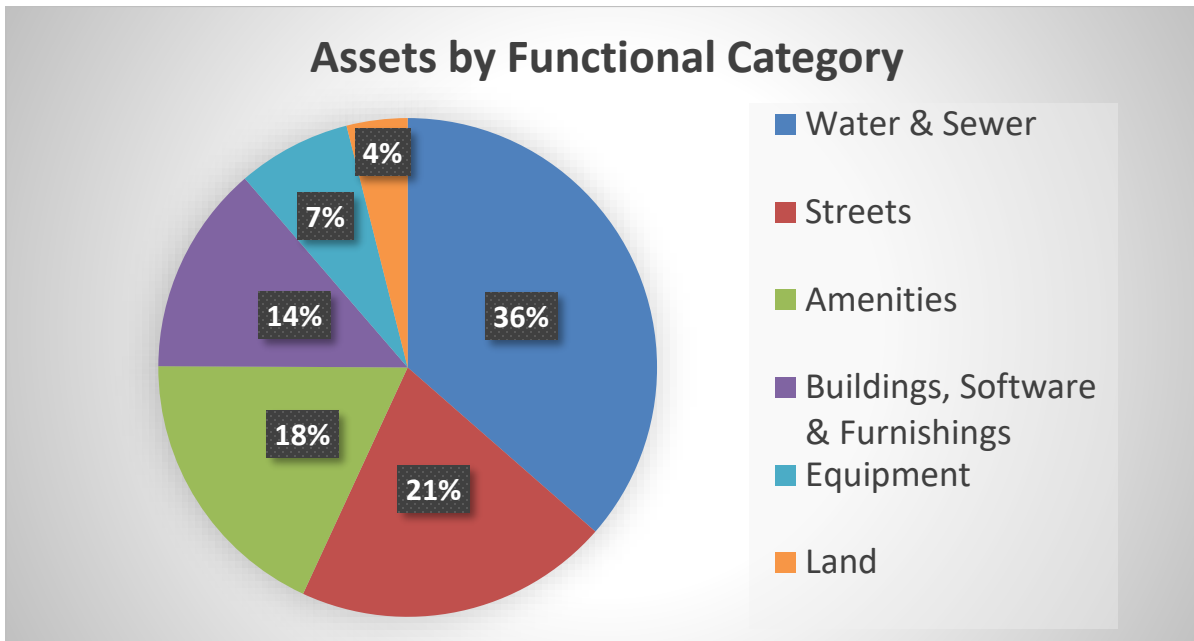
The Board has asked for a deferred maintenance strategy with funding recommendations. **The CMP was designed to help the Association make such decisions and more proactively plan for maintenance, repairs and replacements.** Thanks to the work of the CMP Advisory Committee, we've adopted the following definitions and, accordingly, will be revising the 3-year O&M section of the CMP, as part of the Board's annual budget approval process:

- **DEFERRED MAINTENANCE:** Scheduled maintenance, repairs or replacements that were postponed in order to defer expenses unto a future budget year.
- **PLANNED MAINTENANCE:** Scheduled maintenance, repairs or replacements that are being planned to maintain current assets and occurring, as scheduled.
- **NEW:** Any asset or project that is entirely new and not related to deferred or planned maintenance of an existing asset. Any new project should have a project plan attached that includes the purpose, any service gaps being addressed by the project and any community input/support for the project.

**To put things in perspective, page 22 of the 2018 audit found on [explorethevillage.com](http://explorethevillage.com) summarizes HSV's \$200M of assets (\$134M funded by HSV and \$66M funded by CCI), which is at the root of the deferred maintenance discussion. The graph on the next page categorizes those assets along four functional categories:**

- **Utilities (water and sewer), to include related equipment and facilities**
- **Amenities to include related equipment and facilities**

- **Roadways, to include related equipment and facilities**
- **Safety and service, to include related equipment and facilities**



*\*Note: The majority of building, software & furnishings relates to amenity facilities and the majority of equipment relates to either streets or sanitation operations.*

After spending significant amounts on asset construction without offsetting home build out to support it, funding is off balance and attention has mostly been given to utilities and roadway resurfacing. Amenities, safety and service assets have not been approached with the same proactive programming.

**I believe the majority property owner sentiment remains that our amenities are why people move to Hot Springs Village and should therefore be given equal consideration if our desire is to remain a private community, funded by assessments and amenity fees. The challenge, however, is deciding “which ones”.**

**METRIC DRIVEN DECISIONS.** Asset replacement programs are most effective when they are based upon statistical data and clear policy guardrails, rather than “the squeaky wheel” method. Probability of Failure, Consequence of Failure and Business Risk Exposure are all important measurements, which are most often used by utility companies. Hot Springs Village’s Public Services division staff and committee members have significant institutional and professional knowledge in these areas. During 2019, this division expanded its knowledge by evaluating all culverts and will present a multi-year plan, during the budget, for moving through deferred items towards a planned culvert replacement program.

In the last two years, we have also sought to improve the organization’s ability to demonstrate a similar approach when making amenity decisions. **One starting point was the development of amenity prioritization tools within the CMP, which seek to balance amenity replacement decisions on a forward-looking quality of life and relevance strategy, rather than “the way we’ve always done it” model.** These tools were used during the pool, Balboa golf course & Balboa clubhouse project decisions. I encourage all Board members, committee members and property owners to review these tools and offer suggestions on improvements.

The International Facilities Management Association has some excellent resources for metric driven decision making, as well. For instance, **facility condition indexing** is a tool that I would like to see us adopt. Perhaps the CMP Advisory Committee could assist us with evaluating such tools and prioritizing their implementation.

**SEPTEMBER AND OCTOBER ARE IMPORTANT MILESTONS IN THIS DISCUSSION. The 2020 budget presentation is expected to clarify current needs and begin building consensus around appropriate funding and spending decisions. A consolidated summary view will be given in the September Board meeting. Division staff will provide more detailed analysis and recommendations the first week in October and the Board will vote on a final version in its October meeting.**

### **East End Grocery Strategy**

The recent opening of TJ's Market, as well as the upcoming opening of Artfully Baked & Brewed and Balboa Marina, provides much needed specialty and convenience grocery options to the Village's center and east sides.

Based upon my conversations with grocery chains like Walmart and Kroger, staff conversations with chains currently serving other states, as well as HSV Chamber of Commerce conversations with the same and the efforts of Saline County Economic Development folks, attracting large discount retailers is highly unlikely inside or outside our gate, in the near future. There are several limiting factors to solve such as the availability of water and sewer services, existing facility conditions and inadequate traffic counts on Hwy 5. Supporting our local businesses that have chosen to invest is our recommended strategy in this area.

### **Lodging Strategy**

In past and recent talks with Cooper Communities, we understand they have a desire to either support improvements to existing lodging facilities or facilitate the construction of conference facilities on one of their reserved parcels. In my opinion, the POA's best strategy is to enthusiastically partner with CCI, where win-win options surface with their reserve property.

In the interim, we will be limited in our ability to attract large group tournaments or corporate conferences. We will, therefore, focus our efforts on smaller scale tournament activities and those not looking for large group lodging options.

### **Marketing Strategy Progress**

As noted above and as will be mentioned in the Balboa recommendations, our 2020 and 2021 marketing strategy **will capitalize heavily on the community's golf course assets and bringing in more golfers who desire to live here on one of our golf courses, as well as on unbuilt lake lots.** Because past results and assessment delinquencies demonstrate the flaw of a high volume, high pressure, destination marketing strategy, **staff recommend a "buy and build here" strategy that will also re-engage our unimproved lot owners.** While we may be foregoing temporary cash infusions, I believe short sighted strategies have masked our deeper funding challenges; i.e. our infrastructure is more than can be supported at current funding and resident levels.

The Marketing Sub Committee has held 2 regular meetings, are working their way through the forming and storming phase of team building



and are eager to soak up as much historical information about the community’s marketing as possible. Key committee contributions for the 2020 marketing strategy thus far included a SWOT analysis, advice on the Marketing Manager job and debate and discussion of marketing targets and tools. Staff look forward to presenting a full marketing plan in the Division budget meetings.

### **Balboa Golf Course & Clubhouse Renovation**

Today, Stephanie Heffer, Gary Myers, Tom Heffer and I will present the staff’s recommended path forward for this project. As we will demonstrate, we are looking for two decisions from the Board in September: 1) approval to move forward with a full course renovation and 2) direction on whether the Board would like us to pursue a right-sizing rebuild or existing footprint renovation of the clubhouse, with budget approval of both to occur in October and a future approval gate at contracting point similar to the multi approval process used for the pool project.

We ask the Board and community to consider not only the project itself, but the value to the existing homes and potential to activate unbuilt homes around the course. This project should be considered for both its short and long-term impact on **the community’s overall sustainability and financial health.**

### **Residential Construction Project**

Today, Stephanie Heffer will introduce a new residential project and the investors and visionaries behind it. When Village Homes & Land was formed, its goal was to sell POA land for the specific purpose of new rooftops. This project meets that goal and ensures **the POA is not acting in a development capacity**, a strong recommendation coming out of the CMP. We are pleased to see such a reputable construction and realtor team investing in the Village.