Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

Executive Summary

The FRATF was appointed with an implicit assumption that more 'new funding' needs to be identified for the future (and current) benefit of Hot Springs Village. This assumption may or may not be accurate at all.

Before FRATF comes forward with recommendations on 'new funding' there are several long standing problem areas within the Village and POA that must be addressed. These include General issues, Expense and Cost Reduction issues, Management issues, Governance issues, Employee & Staff issues and Capital Allocation issues.

All of the problem areas are addressed in this report. Assuming that all are resolved, generating 'new revenue' may not be needed at this time. If not resolved, or if there is still a desire for more funding, the report outlines several Plans that have the potential to raise significant new revenue streams.

Hot Springs Village is a unique animal. There is no 'cookie cutter' solution that can be adopted from some other similar community - there is no other similar community. Nonetheless, all the suggested Plans are based on concepts that are used in many other communities all over the United States.

If new revenue is truly deemed needed, it is hoped that the FRATF and the Board of Directors will chose one or more plans with care. That decision should NOT be based on the expediency or 'saleability' of any particular Plan. Decisions should be based solely on what is truly **The Best Interest of Hot Springs Village**.

Table of Contents

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

General Considerations

Village performance in all areas was impacted by the Covid-19 crisis during 2020. There were significant changes to revenues, expenses, POA staff and staff associated costs,.

2020 also brought the Village a culmination of the decade long national housing boom. This plus the Covid-19 'syndrome' caused new home permits and home re-sales to increase significantly. These increases are anomalous and not a reliable trend.

Covid-19 is now on the wane. There will ***NOT*** be another $3 Million Covid-19 Grant. 2020 expenses and revenues should ***NOT*** be relied upon as indicative of the future.

The nation has been riding an economic boom for years. Our national debt is at unprecedented levels and interest rates have been at all time lows. Financial markets have been experiencing records. Meanwhile, our government is spending (printing money) like crazy.

Interest rates will ultimately trend higher. The threat of hyper inflation is looming on the horizon. Inflation is already showing up in construction materials such as lumber and essentials like gasoline and groceries. Many believe a recession is more likely than not.

Hot Springs Village is a remote and rural retirement oasis. The Village is a marginal market. ***There is NO growing or vibrant employment base***. These facts are KEY to forward planning. Economic decline will occur here in advance of any national economic hiccup. This will happen despite an anticipated influx 'fugitives' from high tax states.

The 'work at home' trend should also not be counted on to materialize. First, no one knows just how long this trend may continue to be embraced by conventional industry. Second, the Village is very poorly equipped to accommodate such a trend due to spotty and unreliable broadband. This is an overhanging infrastructure problem which should have been resolved a decade or more ago and was not.

Following any national economic downturn, future recovery here is almost guaranteed to be distant and seriously lagging. It happened in the 2008-2019 period. It will happen again. This is a question of when, not if.

To quantify local, regional and national economic trends, The Future Revenue Analysis Task Force (FRATF) would benefit from having an economist on board. No one currently on the team appears to be such. Paying for or relying on another "Economic Impact Study" from University of Arkansas is not the answer.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

Projections should be made for a base economic forecast case and for multiple best and worst case scenarios. There may be reason for some optimism but any number of factors could easily inhibit Village growth or cause decline.

The ability of current Villagers, resident or otherwise, to bear increasing costs, fees or assessments must be carefully evaluated. Those with secure, abundant and protected incomes must not expect those with lesser means to view increases - needed or not - in the same way.

Short simple 'education' pieces, as have been published a few times now by FRATF, are informative and useful, but little more. They may help 'sell' an assessment increase but they do not address nor will they solve the larger problems.

Many Villagers still believe the Two Tier assessment scheme adopted in 2015 was a huge mistake. "Unintended consequences" were warned about, but ignored. The Village has since continued to suffer from a failure to heed that warning.

The Two Tier was supposed to be part of a 'Three-prong Plan'. *

- <u>Assessment increase on residents</u>. That was the Two Tier assessment itself.
- <u>Improved amenity performance</u>. That included things like Troon which failed. That also included increasing property owner amenity fees which have long ago maxed out.
- <u>Funding for future growth</u>. That part of the 'Three-prong Plan' included development of "new sources of revenue". It included a 'capital buy-in' fee on new owners. These never happened.

** See the Fall 2014 Advocate for the complete story.*

Additional assessment increases for resident property owners will be hard fought. The same applies for 'special assessments' or any other type of resident only based 'funding' plans or fee increases.

There is even less incentive for lot owners (non-residents) to accept any new fees or 'funding' schemes which will cost them more - NONE.

A more complex Strategy will be required if additional Village 'funding' is truly needed. <u>In any new 'funding' Strategy, POA is going to have to 'give something back' to the Property Owners</u>. Otherwise, whether a 'vote' passes or not, the new funding scheme will ultimately fail; just like Two Tier.

Amenity subsidization and the existing concept of fees for all the Amenities needs to be changed. Unless this is done there will never be successful revenue increases, from assessments, or anything else. Some examples of needed policy changes:

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

- Property owners who neither Golf or Live on a Lake must ***NOT*** continue support those who do or the lifestyle they enjoy.

- Property owners must ***NOT*** continue to support POA endeavors which chronically lose money while competing against local commercial interests, e.g., Restaurants.

- A ***No-Fee*** policy for most basic amenities (Fitness Center, Pools, Dog Park, Library, Lawn Bowling, Pavilions, Meeting Rooms, etc.) should be implemented.
    - Such amenities must be considered basic "Member Benefits" without added fees attached.
    - This is how other communities, especially retirement communities, do it.
    - HSV should be no different.
    - "Clubs" may be organized (if desired) by the property owners themselves for some amenities with a nominal yearly fee (e.g., $10) to cover paperwork and announcements, etc.

- Likewise, any amenity fees that are charged must be simple and equitable across all classes of property owners. ***CURRENTLY THEY ARE NOT***.
    - They discriminate between and/or favor various age groups, couples, families, employees, daily pay versus annual, one golf course versus another and the list goes on and on.
    - Such policies are confusing, difficult to understand and hard to manage.
    - Current Village pricing structure for Golf alone is so complex it takes four pages of the Fee Schedule to cover it all. Totally Ridiculous!

- Amenities with high maintenance and capital costs - Golf in particular - should continue to be fee based. However, Property Owner (Member's) daily rates for such amenities must ***NOT*** be priced higher than daily rates for similar amenities in the greater regional area. ***CURRENTLY THEY ARE***.

    - This is true for Daily Pay Golf Fees. *See Addendum 2 for details.*
    - This is particularly true for 'senior' golfers. 'Seniors' comprise 60+% of Property Owners.
    - Property Owners have seen daily golf fees increase between **22%** and **29%** just since 2015.
    - Non-residents owning lots cannot be expected to retain their properties and pay a monthly fee of $39.97/month (+ property taxes) for the privilege when they can play golf (or anything else) elsewhere for less*. It simply makes no sense.

** Daily pay Property Owner rate (green fee plus cart including sales tax) is currently almost $40.00.*

- As the largest amenity, Golf must become a profit center for the Village.
- ***BUT NOT ON THE BACKS OF PROPERTY OWNERS.***
- This means a significant expansion of outside play and tournaments.
- Losing (subsidizing) up to $2 Million per year ***(and that is without any capital improvements or expenditures factored in)*** is no longer tenable.
- Actually it never was a sustainable concept.
- The Golf program needs to become a Village 'cash cow' throwing off at least $1-2 million per year to support the other amenities.
- These issues must be addressed and fixed - **BEFORE anyone starts promoting more assessment increases of any kind**.

Basic Infrastructure such as roads, bridges, gates, dams, buildings and utilities are ***NOT*** 'Amenities'. They are Basic Essential Public Assets and Services. They benefit all property owners - resident or non-resident.

- They should be (must be) separated from 'Amenities'.
- They must be classified, treated and funded differently.
- Their capital improvement and maintenance costs should be funded (Taxed) fairly and equitably across all property owners, resident and non-resident, commercial or otherwise.
- Key note: **Equitably** does not mean **Equally**.
- More on this follows in the Alternative Funding Solutions section.

In Summary, the Village must recognize that it cannot buy its way into prosperity by simply raising assessments on the resident Property Owners. Hiring another "silver bullet" general manager, promoting another under-qualified current employee, and hiring more expensive high level staff or 'pipe dream' consultants is not the solution either. Flawed actions such as these have dismally failed in the past and will not work going forward. The Village must learn to Do What's Best for the Whole Village, Long Term. There are no trendy, simple, quick and easy fixes.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

Expense Management and Cost Reduction

The first step towards achieving "What's Best" has to be across the board expense management and cost reduction.

Maintenance: Villagers continuously hear about **"deferred maintenance"**. It is a declared "key focus area" for the Future Revenue Analysis Task Force. Obviously this must be fixed. It has sorely been neglected in the past.

Promises and 'talk' have abounded over many years. Little or nothing has been done - mostly nothing. A "limited budget" is cited repeatedly for the neglect. The budget is not the issue. Hot Springs Village has never had a **Maintenance Mindset or Commitment.**

One example: The last available Financial Audit, by EGP PLLC, (year 2019, Item 17, page 19) declares:

> ***"In 2012, management prepared a twenty (20)-year capital improvement and maintenance plan ("CIP") for years 2013 to 2032 that included all existing buildings, golf courses, utilities, roads, gates and rolling stock. The CIP incorporated the original in-service date and value. . . projected the construction or replacement value. . . useful life and estimated year. . . ."***

A complete 20-year plan. Great idea. <u>But what happened to it</u>?

Another example: In 2016 the Village began collecting the new 'Two Tier' assessments. The total 'Two Tier' increase was to be about $3 million per year, or $15 million over the last five years. The 'Two Tier' promise ***(How Will the Assessment Increase Be Spent? [white paper])*** claimed, in part:

> ***"$1.9 million per year becomes available to stop the deterioration of our key assets".***

Earmarked money. Another great idea. <u>But what happened to it</u>?

Before figuring out where to get more 'new' money the FRATF must answer:

- Why has there been little or no deferred maintenance done?
- Where did almost $10 million *(1.9 x 5)* over the last 5 years actually go?
- Where did the other $5+ million *(1.1 x 5)* go?
- Who was responsible? Were they held accountable? If not, why not?
- How can another failure be prevented?

Hot Springs Village's problem regarding **Maintenance** (deferred or otherwise) is ***<u>NOT</u>*** "finding more 'new' money". The problem is **Governance and Management** - properly managing the money already available. The following are some specific areas of **Maintenance** concern.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

Preventive Maintenance: Catching up on deferred maintenance is one thing. The Village must also understand what it takes to maintain everything properly - *preventively* - going forward. Maintenance must be an ongoing process. Letting things go and waiting till things break to start 'maintenance' is foolish and expensive.

Mechanical Equipment (vehicles, mowers, equipment, etc.): There have been numerous replacements in the last 10 or so years. Recently it is garbage trucks. Worn out, or what? Maybe just another boondoggle expenditure? Somehow we are saving money by leasing new trucks? Equipment will last a long time if *preventive* maintenance is regularly done. Is this being done? Who routinely changes the tires, belts, oil, filters, brakes, hoses and such on all POA equipment and vehicles?

From the latest FRATF info-email (April 8, 2020) we learned that POA Fleet department has **only two (2)** maintenance staff for some 290 vehicles and 46 'major rolling stock' under their charge. Only two? How can that possibly work? Golf has another 267 pieces of equipment plus 607 golf carts and apparently Public Utilities and Road Maintenance have another 96 vehicles and the count goes on; Police cruisers, Fire trucks, etc. Even worse, it appears that what 'maintenance' is done is spread out over multiple departments with apparently no centralized management or accountability. One wonders how many actual certified mechanics are "on staff" to regularly maintain everything the Golf department has. Surely the guy driving the lawn mower isn't the same guy sharpening the blades, changing the belts, doing the hydraulics. . . or is he? Or is it all shopped out? Or does it just break and POA buys (or leases) a new one?

Buildings and Facilities: These all require *preventive* maintenance. Coatings (painting) and simple repairs are *preventive maintenance*. Lack of attention leads to much higher cost later. Example: Balboa Club. Over $200K is estimated for just exterior decay - and still not done. Tearing down and building anew is not a solution. More deferral won't work. Another simple example: Just keep the heat on when a freeze is expected. ***Preventive***. Had that been done the pipes would not have frozen in the DeSoto Club 7 or 8 years ago. Did the DeSoto Club need a $2.5 million renovation? Probably not, but after the fact there was little choice. *[Was anyone held accountable? No!]*

Roads: Village roads may or may not have been originally built well enough. That has been the common excuse. Cooper's fault they say, so blame him. But, it doesn't matter. All roads need major maintenance - rebuilding, resurfacing, expansion - sooner or later. Other than DeSoto little or nothing has been done - ever, it seems. There are roads in the Village which have never been paved at all. Road maintenance is a full-time, all-year job. Things like crack sealing are *preventive* maintenance. The Village Crack Sealing Machine was recently in the news. Expensive piece of equipment. Lost? Unrepaired? Why? Do we need two or three? What about the crews to man them? What other equipment should the Village have but does not?

Culverts and Bridges: The Village appears to have identified where most of the larger and problematic culverts are located. That's great news. Yet, it still seems a crisis whenever one begins to totally fail, e.g., DeSoto Blvd at the Diamante pond *($84K, August 2020).* How was this ignored for years previously? Are smaller ones, typically on residential streets, being "maintained" correctly? Not in most neighborhoods. Not at all. When will they start to catastrophically fail? Some culvert repairs are being done with interior or "insitu" cementitious coating *($202K, board meeting 5-16-2018).* Unfortunately such procedures are little more than an expensive band aid that does nothing for structural integrity. Another fix for already partially failed culverts is called "Slip-Lining" *($101K, board meeting 6-17-2020).* While this may work in some cases, in many (particularly the smaller and/or oval shaped ones), it greatly reduces the hydraulic efficiency and flow capability from that of the old culvert. While such methods appear to save a few current dollars, they will only create more "down-the-road" problems and expense. But they are being implemented ***<u>NOW</u>*** on parts of DeSoto Blvd. The current work is part of some sort of a "catch-up program" *(board meeting 2-20-2019)* to do culvert repairs and replacements. As usual, it is largely being done with outside contractors. This begs more questions: Why outside? Why does the Village only have a very limited number of road crews? What about the bridges. . .?

Dams: The Village should never get anything less than a "Good" review from any state safety agency. But it recently received less than that *(board meeting 12-18-2019)*. The review was only "Average" with numerous deficiencies noted. Why were the grass and weeds not trimmed? Spillway cracks? Unacceptable. Who got fired? Nobody. It was all sloughed off by management as minor. See the following web article for details: *https://hotspringsvillagepeople.com/hsvpoa-dam-issues/* Another 'manager' was appointed and another 'contractor' hired to cut weeds. But, someone needs to truly answer why this occurred to begin with? Do we now have a regular inspection and *preventive* maintenance program for the dams in place? Were the spillway issues actually rectified? Have any board members, past or present, ever done a hands-on, eyes-on inspection themselves (not just a drive-by)? Likely not.

Dredging: It is one thing to keep the main lake channels, spillways, launch ramps and so on clear, safe and navigable; install marker and hazard bouys; or to treat and prevent ecological threats like Hydrilla. Such maintenance and expense benefits everyone who might use the lakes to some extent. But why is the Village spending big money every year to keep private coves clear of naturally occurring sediment? Why is the sediment not being blocked upstream before migrating into the Lakes? At the 01-16-2019 Board meeting $416K was approved for Lake Balboa Hydraulic Dredging:

> ***"The lake has been lowered to allow Lakes Management staff to remove materials in some coves. However not all coves that require dredging can be reached by staff. Hydraulic dredging is required in these areas."***

It is totally inappropriate that private lake dwellers have access lanes *(coves)* to their private boat slips cleaned out at public expense. Why are Villagers, a majority of whom live in wooded subdivisions, in very modest homes, paying for private cove dredging from which they will never benefit? Yet this goes on year after year. Nothing in the Declarations guarantees a lake dweller that privilege. In fact, their property ends at the waterline; POA owns the land under the lakes. Sure the lake dwellers paid more for waterfront, that's normal. There's less of it and it has 'location' value. <u>But no guarantees</u>. There are actually quite a few 'waterfront' homes in the Village where the adjacent water was always shallow or swampy - from the beginning. Is the Village going to dredge them out for navigable access too? Of course not. Policy needs to be changed.

Golf Courses: It is not just the Balboa Golf Course - neglected for more than a decade. Cart paths are failing on Isabella but what is being done? Nothing. Last year the parking lot at Isabella had a patch done but was also repainted and striped. *Preventive*? Maybe. Or was it simply aesthetically driven with poor judgment? Granada greens were a disgrace and unplayable for over a year. Meanwhile POA had an expensive agronomist on staff. How could that have happened? But he 'retired' (not fired) a year or so later with apparent honors. Why? There are chronic drainage problems on all of the golf courses. Yet, little or nothing ever gets done about it. Fewer people play on cart-path-only days. Don't forget, the patent excuse for golf losing $2 Million per year for the last 10 years has always been "too much rain". There are many other golf mis-management examples.

Contract versus In-House Maintenance: Much of Village maintenance work is contracted out. The current contract maintenance policy must be studied and addressed in depth. The Village's main businesses are Roads, Buildings, Utilities, Lakes and Golf Courses. Supporting and maintaining these assets must be the Village's highest priority. To do that most economically and efficiently there should be a predominance of In-House staff doing the majority of all maintenance - day to day, week to week, year to year. ***Contracting everything out is almost never cost effective.*** But that is exactly what appears to be Village standard practice. Such practice needs to be changed.

In thinking about 'contracting out', keep in mind that Village POA is not just some minor subdivision HOA with only 100 or 1000 homes to worry with. In these much smaller situations maintaining a staff to just cut the grass would be impractical. So contracting makes sense. The Village is different. <u>How much of the $40 million per year in Village expenses could be saved or reduced if less work was contracted out and more 'in-house' work was done</u>?

Maintenance Shops and Facilities: A casual exterior drive-by look at some of the maintenance shops, equipment lots, and such around the Village reveals a questionable and typically shoddy appearance. And that's outside; what's inside? Poor appearances suggest improvements are needed. And what about staff? Do we (did we ever) have proper, full time, trained staff to ***maintain*** our fleets of golf carts, mowers, trucks and other vehicles? In the last few years the Village has gone to "leasing" carts and other equipment. Did the leases include maintenance? What was the trade off. (More on leasing follows later). Proper facilities (and staffing) are essential to accomplish proper maintenance including deferred and preventive maintenance.

Expense Management and Cost Reduction Summary: Maintenance is Big Money. Deferring, Contracting, Ignoring or "kicking the can down the road" are all very expensive. Spending money to just "catch up" what is deferred is not the answer. Expense reduction and large cost savings on maintenance can be made but it is not a short term proposition. It is a **<u>Long Term Strategy</u>**. Savings will come from an ongoing **<u>Maintenance Mindset and Commitment</u>** which means a **<u>Total Maintenance Program</u>** including **<u>Comprehensive Preventive Maintenance</u>**. The solution is NOT simply gathering in more 'new' money with another 'promise' of fixing what has been neglected for decades. **Pulling a big number together for that which has been "deferred" in order to justify an assessment increase is only the tip of the iceberg.** Such a plan is not going to "sell" or work unless the bigger picture is recognized, defined and solved.

Suggestions and Recommendations for Future Revenue Analysis Task Force (FRATF)

<u>Compensation, Benefits and Staffing</u>

Village property owners often hear how we do not compensate our valuable staff adequately. Shame on us, is the resounding echo. Villagers are also frequently told that POA is understaffed and the existing staff are over worked. Board and Committee members are told (privately and publically) that having staff provide needed or requested information and data is too burdensome and time consuming.

Meanwhile, big ticket items seem to just "pop up" all the time. In 2020 alone the Board was totally blindsided by a large insurance renewal/increase. They were also surprised when the Police Department all of a sudden "had to have" new Tasers. Who knew? Staff had apparently not given sufficient advance warning and nobody had asked.

Furthermore it is claimed that Board and Committee members have often 'interfered' with workers - taking time away from more 'essential' duties. Then there are the so-called 'grievances' - by employees against board members. Ridiculous!

There is supposedly a 'hostile' work environment - spouted most vociferously by a recently departed 'in-over-his-head' GM, on his way out the door. This was most likely to try and justify his failure, bolster up his resume and excuse his short tenure. And, an incompetent Board allowed, even endorsed, the rant. Incredible!

Under staffed, over worked, hostile environment and we don't pay enough. All B.S. The Village should get <u>***GREAT PERFORMANCE***</u>, not back talk, grievances and whining. ***The Village, the Board and We the Property Owners are the Employers. Employees only exist to serve. We all pay their salaries, wages and benefits. If it were not for Us there would be no Hot Springs Village or POA.***

On a somewhat brighter note, the Village has (has had) quite a few employees who were 'promoted from within'. Heartwarming isn't it? This is despite some often very sketchy educational and/or experience backgrounds of those promoted. But, it feels good to hear how someone who started out as a mere secretary has been promoted to be a manager, director, general manager, COO or similar. Promotion from within is a noble, altruistic policy - <u>If it is justified</u>. Is the Board now approaching Deja vu. . . all over again? And then there is the nepotism. Some say it is rampant POA wide. Is that true? Why?

Flash forward to the 'executives'. Over the last 10 years the Village has cycled thru multiple highly paid and supposedly 'highly qualified' executives - COO/GM, COO, CMEO, CFO, CEO, GM, Directors, etc. The Village even paid out big money to recruitment firms for some of these folks.

This parade of executive 'musical chairs' was all approved by complacent, rubber stamping boards. Boards who were all too anxious to "turn over the reins" to someone else so they could sit back, have lengthy meetings, issue 'proclamations' and do 'governance'. ***None of these executives have worked out***. And the Village is all the poorer for it.

But, let's get back to the main underlying complaint. That is, Hot Springs Village simply doesn't compensate well enough. If only we paid more we would get more. Right? If only the Village offered the pay and benefits of Walmart or Google we could do so much better. Wouldn't that be wonderful? So, let's take a look at just how good or bad Hot Springs Village really is regarding employee compensation. As best we can tell, that is.

Total Compensation versus Assessments: No one ever talks about this problem. Hot Springs Village pays out MORE in Total Employee Compensation every year than it receives in total Net Assessment Revenue. And, this did not just start recently. It has been going on for a long, long time. Why? What's wrong? See Table below.

Total Employee Compensation as a Percentage of Net Total Assessments

	2015	2016	2017	2018	2019	2020B	2021B
Total Compensation	$14,535,151	$15,756,934	$15,613,338	$17,144,570	$17,526,685	$17,627,094	$18,602,458
Net Assessments	$11,629,425	$16,777,167	$14,766,357	$15,132,219	$14,809,943	$14,332,147	$15,004,600
Compensation %	**125.0%**	**93.9%**	**105.7%**	**113.3%**	**118.3%**	**123.0%**	**124.0%**

Note: 2015 - 2019 Net Assessments data is from annual audits; 2020 and 2021 Net Assessments data is from budgets. Total Compensation data (all years) is from Budgets. Actual Total Compensation amounts are not published. 2016 Assessment amount included atypical and significant "bad debt collection". Other years did not. 2016 Compensation included "contract staffing". 2015 Compensation did not include "contract staffing"; other later years are unknown. No data prior to 2015 is available.

In other words, the Village doles out as much as **$1.25** in Total Employee Compensation for every **$1.00** property owners actually pay in their Assessments. **That is BEFORE any other expenses of running the Village and BEFORE any other revenues or fees**. Oh, so we just need to have increased assessments. Right? NO! There's more to the story.

The Total Employee Compensation projected for 2021 is: More than one half of the Total Revenue from all sources.

52% of Total Revenue to be exact.

Such a high percentage suggests that the Village has a **Labor Productivity Problem**. The Village is NOT a high tech or professional services business where a high percentage of total revenue must go to staffing. The Village is merely (should be) a maintenance (mostly low tech) organization. That percentage should be much lower.

But as noted above, nobody ever talks about these issues. Only the most naive of arguments are what get attention. Villagers (particularly resident home owners) only hear that we must simply pay MORE in assessments. After all, we reap all the wonderful benefits of living here. Other "communities", the promoters say, all pay much more in assessments than we do. If we just paid in more we could pay our employees more. And on, and on. Well, not so fast. There are still other factors to consider.

Staffing Levels: Just by itself, overall POA employee head count is a huge issue. Despite fast talking shell games played by recent administrations, the total number of Village employees (Total Head Count) has remained static over the last six years (perhaps longer) at 500+.

At the same time though, the number of full time workers has ***increased*** while the number of part time workers has ***declined*** dramatically. Keep in mind: <u>Full time employees cost more overall (compensation, benefits, etc.) than part timers</u>. See Table below.

POA Employee Head Count							
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Full Time	?	240	249	286	287	283	282
Part Time	?	265	270	260	235	233	207
Total	**519**	**505**	**519**	**546**	**522**	**516**	**489**
Part Time %	?	52.5%	52.0%	47.6%	45.0%	45.2%	42.3%
Data extracted from Budget Presentations; Prior to 2015 not available. *Not adjusted for 2021 food and beverage outsourcing, currently in progress.*							

How can Total Head Count remain static when in those same years we have outsourced many of our Village services, e.g., gates? At the same time, most of the maintenance (deferred or otherwise) and additions which were accomplished (roads, culverts, mowing, repairs, pickle ball courts, swimming pool, etc.) were (and still are) being handled by outside service companies and contractors. Contractors and outside service companies always cost more. <u>Meanwhile, the number of POA full time employees has increased</u>. How does this compute? Answer: It doesn't.

Part time employee count (and it's decrease) is a very significant metric. From the Table, it is clear that currently only **42.3%** of Village workers are part timers. As noted, that percentage was considerably higher in the past, as much as **52.5%** (2016). Probably even higher 'back in the day'. Part time workers provide a more flexible and less expensive workforce for the employer. Part timers should be plentiful here in a mostly retirement community, not to mention rural 'blue collar' Arkansas. Why is our POA not using more of them?

Part time employees are much less costly in virtually all areas relating to staffing. This includes Wages, Salaries, Benefits and Total Compensation. There is less obligation on the part of the employer as well. Many POA part time workers are, in fact, actually retired and resident Village property owners. Some are even paid via barter (Golf Marshals, Fitness Attendants). <u>So why has the Village been reducing part timers while increasing full time help, and simultaneously, increasing contracted (outsourced) labor and services</u>?

Village staffing appears to be a long standing and chronic failing of both POA Management (CEO's, COO's, CFO's, and GM's) and Governance (Boards of Directors). It is a huge 'red flag' and obvious financial issue. There are opportunities for significant savings. This must be addressed by FRATF. It must be addressed **BEFORE** any campaigns or promotions or recommendations to raise assessments or further add other financial burdens to the Property Owners.

Compensation (Wages & Salaries): Commentary abounds in the Village about "how poorly" we compensates our valuable staff (part time or full time). Villagers hear about how we cannot afford upcoming minimum wage increases. It is also claimed POA simply cannot find enough workers to fill openings; that our dedicated workers are over worked. Insufficient compensation is always the echoed excuse. But yet we could afford to outsource gate security. How is that possible? Even garbage truck workers supposedly cannot be found. POA has reportedly used contract help instead.

Is this all true? Do we really underpay our staff? From a basic dollars per hour standpoint it is hard to tell. All compensation data is held closely secret. Salary grades and pay ranges are not published and difficult to obtain. Detailed compensation (or benefits) data is never published in any financial reports. Why not?

It's all hush, hush. <u>**Property Owners aren't entitled to know**</u>. It took a court case to finally expose the bloated and ridiculous employment contract our 'ceo' had been awarded. Her "deal" was better than the governors of most states and better than equivalent positions for most private enterprises in Arkansas.

What little available HSV employee compensation data there is only shows up in the budget once per year. Then it is just gross average numbers by department. And, traditionally, the data has been shown only as "budget" to "budget" - no actual data. In the 2020 budget we did see a "2019 Forecast" (total compensation only, no salary and benefits breakout) to compare the requested 2020 budget request against. Nice, but reveals nothing.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

The 2021 budget presentation improved only slightly; an historical "Actual" total compensation for 2019 (but off from the 2019 budget "Forecast" by $213K) and a "Forecast" for 2020 were provided. But again, nowhere to be found was enough compensation information, data or details to be useful or provide any meaningful trends. **<u>What is presented by staff actually reveals nothing</u>**.

Benefits (Retirement, PTO, Insurance, Taxes, etc.): Just like with salaries and wages the general perceptions is that other benefits are lacking for Hot Springs Village employees. But again, the information is hard to quantify. In actuality the Village offers many fringe benefits to its employees aside from salaries and wages. Much of the following was obtained from the 2019 Financial Audit (See Addendum 1). In summary:

Workers' Compensation - POA is self insured for each incident below a certain level and purchases reinsurance for large exposures. ***Costs not published or readily available.***

Health Plan Benefits - POA is self-insured for health claims although apparently it is protected from catastrophic exposures under an umbrella type reinsurance type program. ***The annual or monthly costs to POA or employees for any of health coverage is not clear or published in the audit nor are they published or readily available elsewhere.***

Defined Contribution Retirement Plan - The plan covers "substantially all full-time employees". The Association "may" contribute to the plan 2% of each participant's salary plus 4% of each participant's salary over $10,000. ***Costs not published or readily available.***

401(k) Employee Contribution Savings Plan - The Association matches the first 3% of employees' contribution and matches the next 2% of the employees' contribution at 50%. POA contributions to this plan totaled $232,874 for 2019. There is also a separately published audit for this plan. But the Property Owners never see it. It is never published. Do the employees even get a copy? ***Note: Based on an April 18, 2018 Consent Agenda Memo by Lesley Nalley it appears that there is also a 457(b) plan which is either part of or in addition to the above mentioned plans. None of the details of these plans are published or readily available.***

Arkansas Local Police and Fire Retirement System - This appears to be a separate statewide multi-employer retirement program that provides retirement, disability and survivor benefits to police and fire employees. This seemingly generous program appears to be <u>in addition to</u> the other plans noted above. POA contributions to this plan totaled $258,169 in 2019, based on a required funding rate of **23.5%**. ***Keep in mind that this plan applies to only about 50 of the total 500+ POA employees.***

Paid Time Off (PTO) - The POA provides some form of Paid Time Off for sick days, vacation, etc. ***The details of said plan are not published or readily available.***

However, it is said that the plan allows accumulation or "banking" of unused days with no limits and payable at retirement or termination of employment. Such a policy is unheard of in any other organization or company, large or small.

Discounts - Any employee may use any Village amenity at a **50%** discounted rate. This discount, of course, includes the money losing Village Golf courses. Additionally, in 2020 employees were also granted a **50%** discount on meals at POA operated restaurants. This is also unheard of in any other industry. And no, we are not in Silicon Valley or competing with Google for their employees.

Payroll Taxes - As required by law POA pays FICA (Social Security & Medicare) tax on all employees. This amounts to 7.65% of wages for all employees.

Additional - On the Explorethevillage.com website the following benefits are advertised:

* Paid Leave	* Dental Insurance	* Short Term Disability	* 401K
* Holiday Pay	* Vision Insurance	* Long Term Disability	* Discount on Recreational Amenities
* Medical Insurance	* Life Insurance	* Bereavement	

Of course the Property Owners don't know what the actual costs to the employee or POA are for any of these benefits. ***Costs not published or readily available.***

And, Finally - In addition to wages, salaries and benefits there is a volunteer property owner organization which each year solicits contributions for a Christmas Bonus for the non-exempt staff. The underlying assumption is that this charitable program is necessary because POA compensates it's employees so poorly. The foregoing suggests that this assumption is <u>not valid</u>.

Another Observation - From the 2021 budget it is found that POA cost overall for Taxes and [all] Benefits, as a percentage of Total Compensation is **28.0%.** That number does not include the discounts and other freebies noted above. According to the Bureau of Labor Statistics (BLS), Taxes and Benefits, as a percentage of Total Compensation, for Arkansas private workers, should be approximately **27.7%.**

BLS statistics also show that part time workers typically only cost employers **21%** of Total Compensation. Those in the Leisure and Service category typically cost the employer only **15.3%.** As noted above the Village has a significant percentage of part time and, not to mention, leisure and service type workers. So shouldn't our Taxes and Benefits percentage of Total Compensation be much lower than what is reported/budgeted?

The Village also has some (unknown) number of otherwise retired residents who actually work full time for the POA. Those retirees are most likely not maxing out any POA "matched" 401k contributions. They are also most likely not utilizing POA insurance or medical plans either - Medicare and/or VA are their principal providers.

All together these statistics indicate that Hot Springs Village POA Compensation (Benefits) for it's employees is at least highly competitive with, if not much better than, other area or statewide employers.

Compensation, Benefits and Staffing Summary: The Total Compensation expenses for Hot Springs Village are out of line compared to Net Assessment Revenue and Total Revenue. Total compensation and benefits offered and/or available to all employees of Hot Springs Village are very lucrative and substantial for Arkansas. Available data suggests that some employees (likely full time and executive staff) may be receiving a total compensation and benefits package far in excess of area and industry norms. Staffing levels, part time and full time, appear to be highly questionable. Concurrently it appears that use of contracted and/or outsourced labor is excessive. Mis-information and stories about a 'hostile work environment' are way overblown. And, serious hiring, promotion and retention issues appear to exist.

Hot Springs Village POA appears to have some major issues with Compensation, Benefits and Staffing. The questions are: Why? What can be done about it? **The FRATF should make it a priority to figure this out and the Board of Directors should resolve it - BEFORE any endorsement for collecting more property owner assessments of any kind**. A serious, in depth, hands on, **Total Investigation** is required. **And, this does not mean assigning the current HR Manager or General Manager (all hired hands) to simply justify the status quo.**

Suggestions and Recommendations for Future Revenue Analysis Task Force (FRATF)

Capital Allocation / Leasing

Over the last five to seven years Property Owners have heard a lot of "buzz" about the financial condition of the Village. There has been much talk of our "balance sheet" and terms like "Property Owners' Equity". Financial 'ratios' are frequently mentioned and noted (even touted) in the monthly financial reports (even though most Villagers are clueless). Most importantly though, Villagers have heard endless commentary about how HSVPOA was on the verge of insolvency back in about 2013 (this was part of the pump-up for the Two Tier scheme).

Luckily, some 'smart' Villagers managed to put everything back on track - so they say. The "Two Tier" was implemented and they also found us an accounting and financial 'savior'. Their 'leadership' and the 'savior' brought us back from the brink; put us on "firm financial footing" - or so the story goes. Over time we have learned about how POA 'finally' achieved a 'clean' audit report; how it now complies fully with all the requirements of Financial Accounting Standards Board (FASB); and how it is also fully compliant with Generally Accepted Accounting Principles (GAAP). Most importantly, "Property Owners' Equity" is now growing again. Like 'magic'.

Some of the above may be true. . . . But, as noted previously in this report, many are still wondering what happened to all the money. Others wonder how the Village can be building new pools, acquiring new fleets of golf carts and ordering new garbage trucks and cans, while there is still an estimated of $40-60 million of "Deferred Maintenance" floating around. How does all of this compute? Where did the 'magic' come from? The answer, at least in part, is found in ***Leasing***.

How does a business utilize a lease anyway? Why doesn't a business just buy whatever it is they need? Why might a lease be better than simply buying (perhaps financing) whatever asset or piece of equipment it is? ***In the simplest terms, the advantage for most organizations is that a lease (usually referred to as an 'Operating Lease') will most likely save money on taxes; or, the business just does not have the cash to spend; or, it cannot obtain regular financing.*** An operating lease solves many problems. The total of the lease payments are deducted, along with all the other expenses of doing business, from gross revenue. As a result, gross profits (before taxes) of the business are reduced. Less resulting net profit means taxes are reduced or in some cases totally eliminated. Leasing also takes less cash out of pocket. And, it can be the only choice if credit is impaired.

There are a few other advantages of leasing. Perhaps the business only needs the leased 'asset' for a short period of time (a truck for a one-time event or job). Perhaps the 'asset' has a short term useful life or might become obsolete in just a few years (a computer in a fast changing technology world). Perhaps the business wants to avoid the cost and trouble of doing 'maintenance' (just dump the thing when it breaks). Perhaps it is just a convenience or expediency issue (kind of like someone might rent a car while on vacation). Or, perhaps, the business is 'high profile' and needs the most modern, up-to-date, brand-spanking-new 'assets' to impress it's finicky clientele (because the business has such 'huge' profit margins from those clients).

Sounds reasonable doesn't it? But how does leasing apply to the Village? ***Why would Hot Springs Village POA want to utilize leasing, <u>of any kind</u>. HSV is a non-profit organization; it pays no taxes. HSV is not 'high profile' here in rural Arkansas. HSV isn't a 'short term' enterprise. And, HSV does not have 'huge profit margins'. So, how does leasing fit the HSV model?***

Perhaps a different type of lease applies. Welcome to the world of Capitalized Leasing (also known as Finance Leasing). Some might also call it "creative accounting and financing". In such arrangements, the business (Hot Springs Village perhaps) appears able to have the 'best of all worlds'. There is not as much cash outlay up front (low down payment). The business gets to enjoy the brand new assets (golf carts for example). The business gets to take technical 'ownership' of those assets or equipment. This means the assets show up on the Balance Sheet. Boosting that Balance Sheet, of course, makes that earlier mentioned "Owners' Equity" look better***. (But, HSV Property Owners: Forget ever getting your personal hands on any of that "Equity". None of us can ever cash it in.)*** The business still gets to 'expense' the lease payments on the asset which reduces Net Taxable Income (wouldn't help HSV as a non-profit). And, at the same time, the interest expensed can be less (than if straight financing was done). Win! Win! Right?

Well, maybe. Among other things the interest expense is less because there is a 'balloon' type payment (often noted as an 'option to buy') due at the end of the lease. Therefore the amount 'financed' is less so the payments are less. There are also some very specific criteria which must be met in order to satisfy GAAP and FASB requirements. Those criteria have been changing too (See Addendum 3 for some further details). One of those criteria, often cited (by the financiers) as positive for the Lessee, is the option (requirement) to buy the asset at the end of the lease - usually at a perceived "bargain" price. But, down the road there is a requirement to pony up cash. 'Paying the Piper', as some might say. Another 'asset' on the Balance Sheet though.

In the case of Hot Springs Village it is not quite clear exactly what type of **'Leasing'** has been and is currently going on. The 2019 Audit does have a particular note regarding 'Operating Leases' (See Addendum 3). But, historically the Village has always 'owned' all of it's equipment and vehicles. In some cases there was financing involved. Often though it was the Developer doing the lending and the rate was Zero percent interest. (his version of a Win! Win!) The result was that over time there was real equity accumulated by the POA in that so-called 'rolling stock' or equipment, trucks, police cars, golf carts, whatever. But, back in about 2016 that all began changing. Various 'lease' arrangements began occurring. A short summary (not necessarily all inclusive) is below:

- April 20, 2016 - "I move to approve a 48-month lease of three Caterpillar Backhoes from JA Riggs and Caterpillar Financial Services Corporation at $1,266.87/month or $45,607.32 annually." "At the end of the four-year lease the POA will have the option to 1) purchase these backhoes at a price of $64,365 each, 2) turn in the backhoes and negotiate a new lease or 3) purchase new backhoes outright." ***Approved unanimously by the BOD.***
- April 20, 2016 - "I move to approve the acquisition of three Sanitation Trucks from TCS Trucks of Strafford, MO on a purchase/buyback agreement in the amount of $472,860, less trade in amount of $85,000 for a net purchase of $387,860 with a buyback option amount of $77,000 each, and financed (3.99% interest) by ARVEST bank." ***Approved unanimously by the BOD.***
- July 17, 2017 - "I move to refinance balance due on the three Sanitation Trucks, originally leased in 2016, with Arvest Bank for 36 months at a 4.35% interest rate for a total cost of $246,690." ***Assumed to have been approved at the July 19, 2017 BOD Meeting but is not found in Board minutes.***
- April 19, 2017 - I move to approve an agreement to lease a total of 600 Golf Carts from Golf Cars of Arkansas (Club Car) over 72 months, at a lease rate of $38.50 per cart/per month, with a 72-month extended warranty, and a guaranteed cash trade-in of $2,500 per cart. The initial lease in 2017 will be for 120 carts with 113 trade-ins, which POA will receive up-front trade in cash totaling $282,500." "Choosing the lease option will enable HSVPOA to free up $1,500,000 over the upcoming five (5) years. . . ***." Approved unanimously by the BOD.***
- February 17, 2021 - "I move to authorize GM to lease six (6) new Solid Waste Trucks . . . with USbancorp for 25 months at 1.9% interest rate (approximately $22,139.53 per month, $1,209,208.64 total cost). ***Approved by the BOD with a 4/1 vote on only a partial board - missing 2 out of the required 7.***

In addition to these 'leases' the POA has also been doing some additional financing of major capital assets over the last few years. One item below:

- February 21, 2018 - "I move to approve the bid from Bidder 1, Pierce Manufacturing, Inc., in the amount of $943,618.00 for a 2017 Pierce 107' ladder fire truck to be financed over a 5-year term." "Staff is recommending 5 year financing totaling $1,053,198.00." ***Approved unanimously by the BOD***.

Then there is the money spent for the new pool and the pickle ball courts, neither of which apparently were leased or financed. That total is about **$2.5 - $3.0 million**, more or less. The whole point though is about leasing and the rationale for it. It may have been done legally, correctly and in accordance with GAAP and FASB. That's all well and good. But, was all that leasing the correct and proper thing to do? A rough total of the leases noted above suggest that POA pushed something like **$2 - $3 million** of asset 'liability' into the future. Does it make good business sense to lease a principal asset of your main business (golf) rather than own it? Many Villagers buy a golf cart. Whether they buy it new or used, most expect to keep it for years and years. Just like an automobile, it can easily last 10-15 or more years if properly kept and maintained, not just 72 months. If all this leasing makes sense, then maybe POA should sell one or more of the golf courses and then lease them back. . .?

But let's not forget the <u>*Uber*-Important</u> "Property Owners' Equity" story line***. It is growing, isn't it?*** From the 2015 and 2019 Financial Audits, "Property Owners' Equity" increased from $69,393,911 (2015) to $73,918,558 (2019) for an increase of $4.5 million. So the 'magic' has been working, on paper at least. ***Or maybe not?*** As noted earlier, the Village no longer 'owns' certain assets in which there was once <u>**hard intrinsic 'equity'**</u>. In place of that there are now future 'buyouts' or 'balloon payments' or 'finance' or 're-finance' payments to be made and the like. It is a matter of some perspective, no doubt. But on the surface at least it *'smells fishy'*.

Capital Allocation / Leasing: Hot Springs Village POA appears to have some major issues with Capital Allocation, particularly Leasing. Has the 'free spending' of the last five or six years put us behind the eight ball, so to speak? Why has POA been leasing capital assets. What can be done about it going forward? Could this be one of the reason certain past Board Members wanted the Corporate Treasurer and Controller to be a non-staff Property Owner? Has the Village been fooling itself with the "Property Owners' Equity" story line? There are a lot of issues here. <u>FRATF should make it a priority to figure it all out and the Board of Directors should resolve it - **BEFORE** any endorsement for collecting more property owner assessments of any kind</u>. A serious, in depth, hands on, **Total Investigation** is required. <u>**And, this does not mean asking the current CPA firm or General Manager (all hired hands) to simply justify the status quo.**</u> The CPA firm and GM or Staff are not responsible for running the business properly. The Board of Directors are!

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

Alternative Funding Solutions

This section makes the assumption that all of the foregoing issues, questions and concerns are answered and resolved by FRATF and the Board of Directors. **If they are not resolved, any discussion of Solutions is totally pointless**. The Village would simply be throwing good money after bad. Further analysis is moot.

If the issues, questions and concerns are resolved, but still there is a need for new funding then an Alternative Funding Solution must be found. The unknown, of course, is the total Additional Revenue which might be needed.

Don't forget, in order to get the majority of Property Owners to vote for some new revenue plan, something is going to need to be in it for them. Refer back to page 3-5 for some details and suggestions. Most Property Owners (resident and non-resident) are sick and tired of 'promises' and being 'nickel and dimed' to death; not to mention dollars.

There are also certain basic limitations on any Alternative Funding Solutions. Some are strictly a Board of Directors decision. Many would require a Property Owner Vote. Some would also require a Property Owner Vote to change the Declarations. Such change cannot be voted on until 2025, nor implemented until 2026. Some Solutions will likely bring about legal action contesting them.

Before discussion of Solutions, a few metrics upon which to base comparisons must be defined. The following are taken from the most recently available POA information:

Current Number of Improved Lots (includes multi-units):	**9,179**	
Current Amount of Improved Lot Assessments:	**$69.26/mo**	**$831.12/yr**
Current Number of Unimproved Lots:	**13,447**	
Current Amount of Unimproved Lot Assessments:	**$39.97/mo**	**$479.64/yr**
Current Number of Commercial Lots or Establishments:	**118***	
***Based on number of Trash accounts**		
Estimated New Homes Built:	**100/yr**	
Estimated Home Resales:	**600/yr**	
Estimated Lot Sales:	**75/yr**	
Estimated Median Home Value:	**$200,000***	
	***As many valued below as above**	

Eight (8) alternative Funding Solutions are described. Pros and Cons for each case are noted. An approximate amount of Additional Annual Revenue is projected. The simplest possible calculations are used. Details are noted as needed.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

Base Case - Do Nothing (BCDN):

This case is based solely on the concept that FRATF (and the Board) have resolved all the issues as detailed earlier in this report. It further implies that resolving those issues provides adequate funding ***(example: golf becoming a large revenue generator)*** and nothing else needs to be done at this time. New revenue in the **BCDN** case is only what comes from new homes being built, with these homes on lots already in good standing, combined with new lot sales. No estimate is made for ancillary revenues any other sources.

> ***Pro: Nothing needs to be done. Strictly a Management resolution. No Property Owner Vote.***
> ***Con: Very little new revenue is realized. New building may cease in any economic contraction.***

Additional Annual Revenue $119,085

Property Transfer Fee (PTF):

POA could impose a fee on any transfer of any property from one owner to another. However, the **PTF** concept is a very contested issue. In some states it is not legal. Arkansas may be one of those. The National Association of Realtors opposes it in principle. Nonetheless, it is a way of raising funds which is used in many places. A typical transfer fee might be $250. Note that the **PTF** would be in addition to the 'paperwork' fees already charged by POA for providing 'resale' certificates or membership 'assignments'. **PTF** funds would have no 'earmarks' or special accounts and could be used for any purpose.

> ***Pro: Raises some funds. Can be done with only a Board Vote.***
> ***Con: Legality? May inhibit sales of properties, lots in particular. Generally unpopular.***

Additional Annual Revenue $193,750

Capital Improvement Fund (CIF):

Unlike the **PTF**, a Capital Improvement Fund scheme is not illegal. It is used in many states. <u>It is standard practice for almost every new 'amenity rich' development, particularly retirement communities such as those by Del Webb</u>. In fact the original Sun City in Phoenix, AZ implemented a **CIF** plan about 20 years ago when they faced economic shortfalls. The **CIF** is a 'one-time' fee when any 'new' owner purchases a home or lot in the development, i.e., 'buys into the Village'. Current owners selling their existing home to purchase another in the development are exempted. Any purchaser of multiple properties pays multiple fees. The proceeds are designated into a special **Capital**

Improvement Fund and are restricted from use as operating funds. A typical **CIF** fee might be as much as $3,500.

> ***Pro: Generates a lot of capital. It is an ongoing thing, year after year. Might be doable with only a Board Vote - legal check required. Could be done gradually or 'phased in' as shown in the illustration. Could exclude lot purchases.***
> ***Con: May hinder some marginal buyers. Revenue will fluctuate with economic conditions (more or less home sales). Probably will be challenged legally by some.***

Additional Annual Revenue* $2,450,000 @ $3,500
$1,225,000 @ $1,750

**Assumes 700 total new owners.*

Three Tier Plan (TTP):

If 'Two Tier' was good (rash assumption perhaps), a **Three Tier Plan** would be even better! For a **TTP** to work the 'median' value of all Improved Properties (those with homes) must first be established. For estimating purposes let's say this value might be $200,000. <u>Properties valued below would see no assessment increase</u>. Properties valued above (4590 is the count) would see their assessment <u>**double**</u> effective January 1, 2022. Going forward these Properties would be subject to the regular annual incremental increases which Consumer Price Index (CPI) and Board may dictate; just like all Lots and the all of the below $200K Properties. <u>The rationale is that those owning the more expensive properties have more 'invested' in HSV and therefore benefit more and should be responsible for more</u>. Those who are invested less should be responsible for less. This is the same rationale which was used to justify the 'Two Tier'.

Pro: Raises a lot of money. It is an ongoing thing. No legal hurdle; 'Two Tier' already blessed by the courts. Easily voted in by the non-residents and those below the median. Many (particularly those above the median value point) think assessments need to double anyway. Does not impact those of lesser means. Would encourage more affordable homes being built, particularly in-fill homes on the West side where there is currently no new construction.
Con: Those above the median will no doubt pitch a fit. These would be general funds and would not be 'earmarked' or dedicated to infrastructure or capital improvements.

Additional Annual Revenue $3,814,841

Commercial Assessment (CA):

This approach could also be called 'Four Tier'. The **CA** plan works this way: Each Commercial Establishment (there are about 118 of them) would pay a higher assessment. The Rationale: It is a privilege to be able to operate a business inside a private gated residential community with a 'locked in' clientele. A 'bird nest on the ground' so to speak. It is even more of a privilege to also have any outsiders allowed to come in - at will - to

patronize their business. And, this benefit to the Commercial Owners is both current and long standing Village policy. Keep in mind, many of these businesses have multi million dollar revenue streams; all thanks to being inside the Village. A rate would have to be set but for illustration let's assume it would be the same as for the **TTP**. But, the rate could be set much higher.
Pro: Again, no legal hurdle; 'Two Tier' already blessed by the courts. It is an ongoing thing. It is in-line with the current national majority political view (raise corporate taxes). Could be expanded to include 'Air B&B', etc.
Con: A Property Owner vote probably required. May not raise significant money. Could discourage some smaller businesses (but do we really want more commercial in a private gated residential community?). Legal challenge likely.

Additional Annual Revenue $98,072

Special Assessment (SA):

The Declarations already provide for such an assessment but it does require a Property Owner vote. The funds generated must be for a specific capital purpose (infrastructure rebuilding). It could be done similarly to the 'Two Tier' with it only applicable to resident owners (not recommended). The **SA** illustration shown is based on all properties (resident and non-resident) being assessed equally. Special Assessments are commonly done in many developments. The amount would depend on the project(s) anticipated.
Pro: Generates a lot of capital improvement revenue. Could be combined with the implementation of a (CIF). May be more palatable than a plain vanilla (and permanent) assessment increase.
Con: If done the 'Two Tier' way will no doubt further incense many resident Villagers. Needs very specific use justification. Possible legal challenge. It is only a 'one-shot' deal.

One Time Added Revenue* $9,179,000 @ $1,000
** Resident owners only*

Infrastructure Taxation Plan (ITP):

This option would create a 'layered' assessment system on top of what we already have. In an **ITP** each property (resident, non-resident, commercial, etc.) would be charged an additional assessment 'layer' based solely on the valuation of the property. The valuations would be the assessed values as verified by the county tax assessor and would fluctuate, year to year, as county valuations and taxes do already. A 'millage' rate would be established and applied annually to all Properties according to their valuation. Obviously, the higher valued Properties would pay proportionately more than the lower valued ones. <u>ONE KEY BENEFIT of such a Plan is that the funds generated could be specifically designated ONLY for a Capital Improvement Fund or Account</u>. Funds would only be spent for infrastructure (roads, dams, maybe a broadband system, possibilities

are endless). Estimating the annual benefit for such a Plan is complicated and beyond the scope of this report. <u>But it could easily equal or surpass any of the other Plans</u>.
Pro: It is an ongoing thing. Puts the infrastructure burden proportionately across all Property Owners according to their means. THIS IS EXACTLY THE PROPERTY TAX SYSTEM USED NATIONALLY IN AMERICA IN ALL COMMUNITIES AND JURISDICTIONS.
Con: Complicated to implement. Requires a vote of Property Owners to change the Declarations. Already proposed by a Board Member and panned by many. Claims will be made (likely frivolous) that it would require HSV to become a municipality.

Infrastructure Bonds (IB):

As the name implies this Option requires taking on debt (borrowing money). But, the Village has done it in the past for the Water Plant and the Waste Water Plants including infrastructure. So, why not **Infrastructure Bonds** for roads, bridges, failing water pipelines, golf course renovations, broad band infrastructure, etc.? Good for the Goose; Good for the Gander? The Village is already securing the water bonds with the promise to pay of the Property Owners. Why not this as well? The **IB** plan provides for a large influx of capital to be acquired with payback over a very lengthy period of time.
<u>**AND: INTEREST RATES ARE STILL AT OR NEAR HISTORIC LOWS.**</u> The timing could not be better!
Pro: No changes to Assessments. No Property Owner vote required. Get everything fixed in a short period of time. Pay back the loan with <u>deflated future dollars</u>.
Con: Somewhat costly to implement. Lots of legal and financial work required. Must have specific plans and uses for the funds. Will impact other borrowing. Could affect those 'magical ratios' mentioned earlier in this report.

THANK YOU FOR READING!

Suggestions and Recommendations for Future Revenue Analysis Task Force (FRATF)

Addendum 1

All of the following in this addendum is taken directly from the Independent Auditor's Report by EGP, PLCC, CPAs & Consultants dated April 1, 2020 for tax year 2019 (most recent available at time of this report):

Retirement Plan

The Association has a defined contribution retirement plan covering substantially all full-time employees. The Association may contribute to the plan 2% of each participant's salary plus 4% of each participant's salary over $10,000. The Association also offers a 401(k) employee contribution savings plan whereby the Association matches the first 3% of employees' contribution and matches the next 2% of the employees' contribution at 50%. Retirement contributions (excluding Arkansas Local Police and Fire Retirement System) were $232,874 and $191,078 for the years ended December 31, 2019 and 2018, respectively.

Arkansas Local Police and Fire Retirement System ("LOPFI")

The LOPFI is a statewide agent multiple-employer retirement program that provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. The LOPFI was created by Act 364 of the 1981 General Assembly. The authority to establish and amend benefit provisions is set forth in Arkansas statutes and is vested in the Arkansas Legislature with the concurrence of the Governor. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981, are eligible to participate in the plan.

The LOPFI issues a publicly available financial report that includes financial statements and required supplementary information of the plan, which may be obtained by contacting the following:

Arkansas Local Police and Fire Retirement System
P.O. Drawer 34164, Little Rock, Arkansas 72203(501) 682-1745

Funding Policy. Contribution requirements are set forth in Arkansas statute. The LOPFI members were required to contribute 8.5% of their annual covered salary. The Association is required to contribute at an actuarially determined rate, which was 23.5% and 23.5% for participating police and firemen for the years December 31, 2019 and 2018, respectively.

The Association's contributions to the plan were $258,169 and $283,455 for the years ended December 31, 2019 and 2018, respectively, and represented approximately 10% of covered payroll for each of those years. The contributions provisions applicable to the POA are established by the LOPFI board, and shall be based on the actuary's determination of the rate required to fund the Plan.

Health Benefits Self-Insurance

Under the Association's insurance programs, coverage is obtained for catastrophic exposures, as well as those risks required to be insured by law or contract. The Association, however, retained a significant portion of certain expected losses related to employee health claims beginning January 1, 2004, at which time health claims became self-insured by the Association. Provision for losses expected under the program was recorded based on the Association's estimates of the aggregate liability for claims.

Workers' Compensation Self-Insurance

Under the Association's Workers' Compensation Insurance Program, reinsurance is obtained for large exposures, as well as those risks required to be insured by law or contract. The Association self-insures each incident below $350,000 with $600,000 applicable to police/fire and first responders. An allowance for losses expected under these programs is recorded based upon approximately two times the Association's stop-loss coverage. The Association has accrued $25,182 and $119,562 related to outstanding workers' compensation claims at December 31, 2019 and 2018, respectively. The amount of actual losses incurred could differ materially from the estimates reflected in these financial statements.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

Addendum 2

Area Golf Rate Comparison - April 2021 18 Holes - Green Fee & Cart Included				
			Regular	Senior
Rebsamen G.C.	Little Rock	M - F	$35.00	$27.00
		S - S	$41.00	$32.00
Burns Park G.C.	North Little Rock	M - Th	$28.00	$24.00
		Fr - S - S	$34.00	$28.00
Isabella / Granada	HSV Property Owner	Any Day	**$37.50**	**$37.50**
Ponce / Cortez / DeSoto	HSV Property Owner	Any Day	**$36.50**	**$36.50**
Rates from G.C. websites and HSV "Flex Pricing" Chart (including Surcharge) *On top of all the rates there are also various 'sales taxes', county, state, etc.*				

Addendum 3

From 2017 Financial Audit by EGP PLLC dated March 16, 2019:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on their balance sheet. The right-of-use asset and related lease liability will be initially measured at the present value of the remaining lease payments; however, if the original term of the lease is less than twelve months and the lease does not contain a purchase option that is reasonably certain to be exercised, a lessee may account for the lease as an operating lease. ASU 2016-02 is effective for interim periods and fiscal years beginning after December 15, 2019. While the Company continues to evaluate the effect that ASU 2016-02 will have on its financial position, results of operations, and its financial statement disclosures, the adoption of ASU 2016-02 is expected to result in leased assets and related lease liabilities to be included on its balance sheet.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

From 2019 Financial Audit by EGP PLLC dated April 1, 2020:

Operating Leases The Association has entered into operating leases for various golf carts, office and construction equipment. Generally, these leases are cancelable by either party at any time. Future minimum payments under these leases with commitments beyond one year are $76,524 for 2020 through 2023 and $19,131 in 2024. Rent and equipment lease expenses associated with these leases were $286,359 and $96,968 for the years ended December 31, 2019 and 2018, respectively.

Suggestions and Recommendations
for
Future Revenue Analysis Task Force (FRATF)

About the Author

Tom Blakeman has been a full-time Resident and Property Owner in Hot Springs Village since December 2015. He is retired. His background includes:

- Bachelor of Science Degree - Engineering
- Masters Degree - Business Administration
- Licensed Real Estate Broker (Texas)
- Over 20 years experience in various corporate positions
- Over 20 years as owner of his own business

Tom is a golfer and a do-it-yourselfer. He likes to fix things. His professional work experiences included, among other things, business management and operations, real estate sales and marketing, project engineering, economic analysis, business writing and review and interpretation of contracts.

The facts presented herein, such as golf and financial statistics from HSVPOA, are just that, facts. The ideas and opinions expressed herein are also just that, ideas and opinions. They are solely those of the author.

Please take time to read these facts, ideas and opinions with an open mind and take them in the spirit with which they are being presented:

The Best Interests of the Property Owners of Hot Springs Village, AR.

Tom Blakeman
Village Resident & Property Owner
April 14, 2021