

HOT SPRINGS VILLAGE

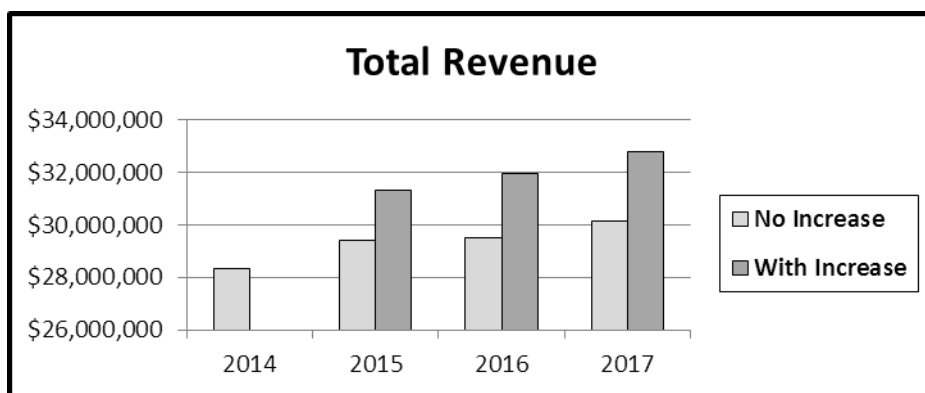
Arkansas

Assessment Committee

How Will the Assessment Increase Be Spent?

Background: In anticipation of the proposed assessment increase vote, two budgets were prepared – one for each contingency of the assessment vote either passing or not passing. Because funding for improved cash reserves, essential operations and capital purchases has become so critical, the POA Board decided that if the assessment increase did not pass, at least some additional revenue was needed through other methods such as increasing golf and water fees. In order to understand what the increased assessment dollars will be used for, one needs to understand the differences in the two separate 2015 budget proposal scenarios.

The following charts illustrate the projected differences for 2015, 2016 and 2017 for the two scenarios – “**No Increase**” and “**With Increase**” – as they relate to total revenue, capital purchases, maintenance, and cash reserves. The Board will be approving the 2015 budget only. The 2016 and 2017 numbers simply represent estimates for those years. The projected 2014 year end levels are displayed as a reference.



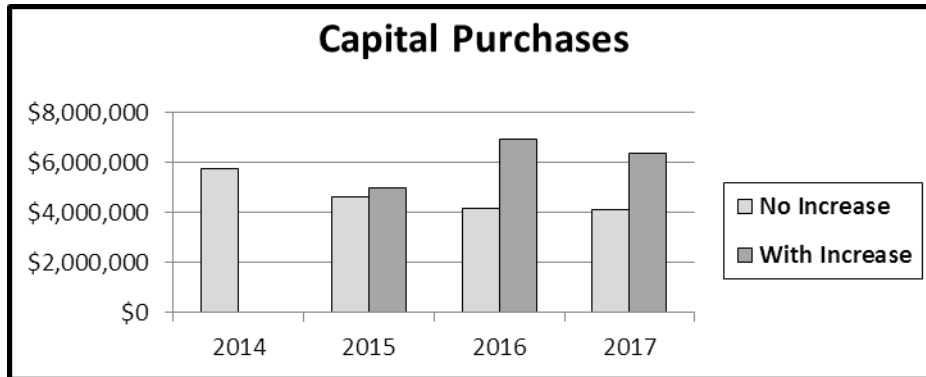
No Increase: Budget assumptions are a 2.3% CPI (Consumer Price Index) assessment increase to all property owners, a water usage fee increase, and golf and other recreation fee increases in 2015.

With Increase: Budget assumptions are an assessment increase to \$65 for owners of improved lots only, no CPI increase for unimproved lot owners, and no increase in water usage or golf fees.

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The 2015 Budget lists 272 capital items adding up to over \$22 million in capital purchases and projects in need of funding over the next six years. The list of needs is obviously way more than we can afford in any one year and must be spread over multiple years. The longer we wait the deeper the hole and the more difficult and longer it will take to catch up. Many of the items that are behind have to do with infrastructure in the oldest parts of HSV, and therefore these are of higher priority. However, it won't be long until the same kind of infrastructure repairs, upgrades and replacements will be required in the newer sections as well.

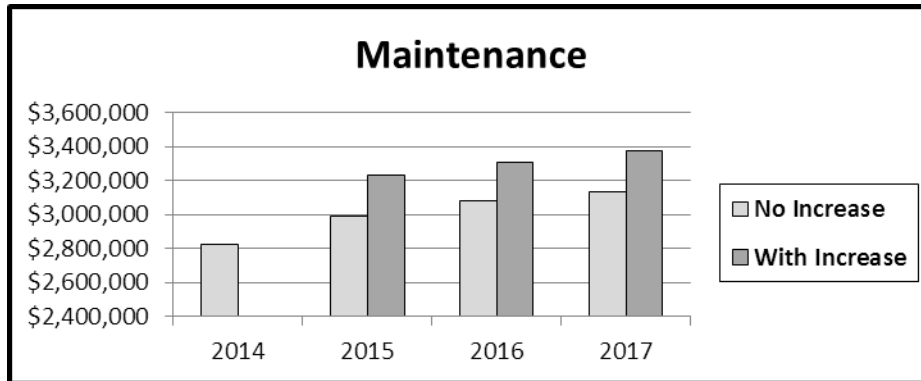
No Increase: If the assessment increase does not pass, funds available for capital expenditures remain at about \$3.5-\$4.0 million per year – about half of which is designated for replacing rolling stock such as police, emergency, and sanitation vehicles, maintenance equipment, and golf carts. The remainder will be used to continue the expensive process of repairing things as they break.

With Increase: If the increase passes, another \$1.9 million per year becomes available to stop the deterioration of our key assets. Some of the additional capital expenditures made possible with an assessment increase include the waste water treatment plants, the Woodlands HVAC and lighting, Balboa course irrigation and cart paths, the Desoto and Balboa Clubs, gate security upgrades, pickleball complex, a fire engine, tennis court lighting, Coronado Center renovations, and many others.

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Our most crucial deferred expense is maintaining our water distribution and waste water systems. This need is most acute in the older sections of HSV. Continuing waste water plant overflows may result in severe failures and steep penalties from the environmental agencies.

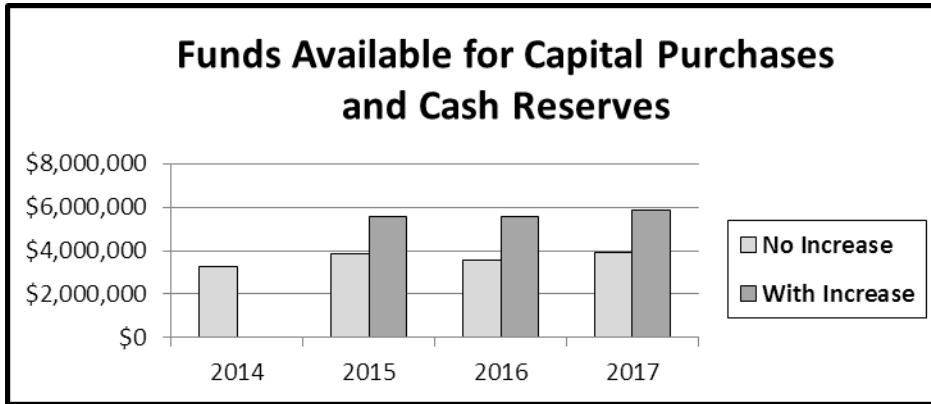
No Increase: In order to preserve water and sewer maintenance needs, a reduction of road and culvert maintenance amounting to over \$711,000 will continue to be deferred during 2015-2017.

With Increase: In the 2015 budget, maintenance for water and sewer increases from \$368,000 to \$795,000. Catch-up maintenance costs are expected to be even higher in 2016 and 2017. Road and culvert maintenance will continue at the current annual level of \$1.4 million through 2017, while still allowing for the additional water and sewer maintenance.

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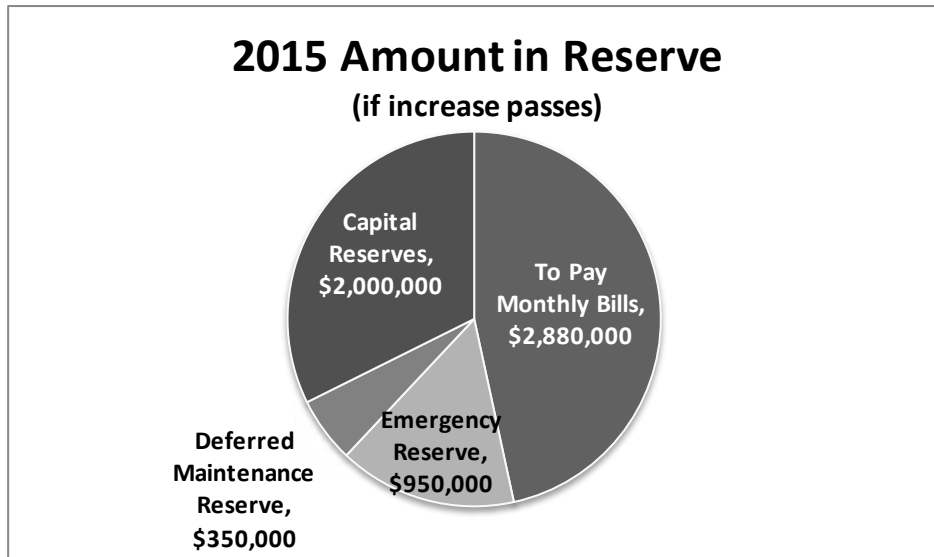
In business, as in our personal lives, spending fluctuates from month to month. It is important to know how much we need to handle cash flow fluctuations, pay for the long-term capital expenditures, and have reserves for emergencies. HSV is no different.

The “Funds Available” chart above shows the amount of revenue remaining after paying for all non-capital expenses (employee compensation, materials and supplies, maintenance and operating expenses). This represents the funds available for long-term capital requirements, building cash reserves, and still having funds available for emergencies. If the assessment increase passes, we are in a much better position to meet our current obligations, spend more on things we need, as well as save for the future.

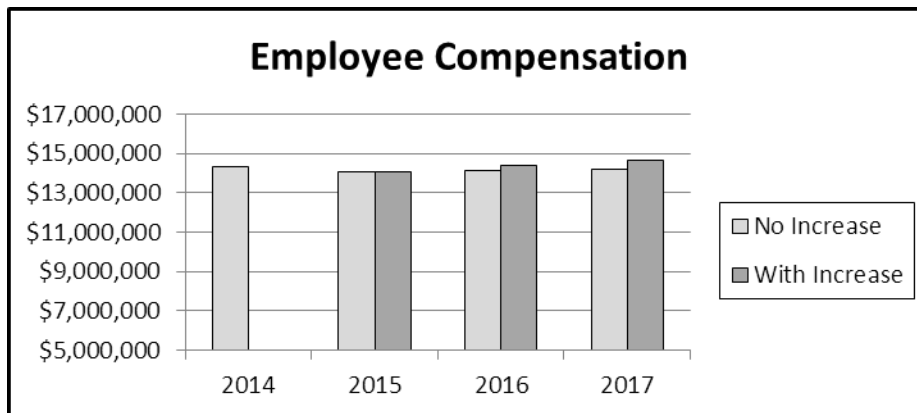
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Consistent with our auditor's recommendations, replenishing cash reserves is a high priority. In the 2015 budget, if the assessment increase passes, cash reserves increase from \$4.2 million to \$6.2 million, putting us in a much stronger financial position that protects our credit rating, and addresses long-term capital and emergency needs.



Employee compensation is a significant portion of the POA budget.

No Increase: In order to fund the priorities of capital purchases and deferred maintenance, employee compensation may have to be frozen at 2015 levels for the following two years.

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With Increase: Employee compensation continues to keep pace with the cost of living, which is currently estimated at 2.5% per year.

All Other Spending

There is no difference between the “with increase” and “no increase” scenarios for all other spending. This category accounts for about \$7-\$8 million of the POA budget, and includes such things as materials and supplies, electricity, the ambulance contract, taxes and insurance.

The conclusion is that due to several years of uncollected assessment revenue, our wonderful, unique, gated community is approaching a critical financial crossroads. It takes significant resources to continue our stewardship of keeping our community not only in excellent current condition for the benefit of the 13,875 residents, but to continue to plan for the future residents.

Our Board continuously wrestles with spending priorities. Everyone has his or her own opinion of what should be funded first, second, and last. The priorities will change as we have unexpected failures and uncontrollable events such as ice storms or environmental regulation changes.

One thing is clear: No new amenities will be funded from this assessment increase.

Even with the assessment increase, there are millions of dollars of capital projects that have been identified but are still under review. The key to funding these projects relies on HSV growth initiatives – another part of the three-prong plan. Our growth is dependent upon a solid financial footing, which the assessment increase will assure.

To review the detailed budget and capital plans for 2015-2019, visit www.hsvpoa.org then click Governance, then Financials.

For detailed information about the assessment increase proposal, visit www.hsvpoa.org and click the link at the top of the page.