Memo
To: Hot Springs Village Board of Directors
From: Lesley Nalley, Chief Executive Officer
Date: March 21, 2018
Re: Monthly Board Meeting Updates

As we consider adoption of the CMP and its guidance of our future, it is important to learn from our past challenges. A growth versus maintenance debate has served to side track our prosperity for long enough. I offer the following data to assist us with moving beyond this discussion and choosing a more balanced approach going forward.

In the last 10 years 940 homes were added. During each of the prior 10-year periods over our 46-year sales history, two to three times that many homes were added each decade. In 2005 and prior to Cooper Communities Inc discontinuing operations in Hot Springs Village, 22% of the originally platted homesites were built upon. Today, 12 years later, 26% are built upon, yet infrastructure and zoning rules remain in place as if all 34,452 units would someday be constructed. Accordingly, the repairs and replacement liability of the amenities added under those original assumptions exceed annual revenue streams. Additionally, as noted in the March 6th CMP meeting, real estate related inflation indexes are growing at a higher rate than our currently used Southern Region CPI.

Despite this funding imbalance, nearly $20mil in capital projects have been completed over the last 12 years, with $17mil of that amount represented by six projects: Isabella Golf Course Construction, DeSoto Club & Golf Course Renovation, Water Plant Expansion, Coronado Fitness Center Expansion, Cortez Golf Course Renovation, and Magellan Golf Course Renovation. An additional $14mil has been spent on roads during that same time frame. When evaluating maintenance decisions, the average person may not fully grasp the magnitude of what $100mil of aging infrastructure means and the tremendous efforts made to compensate for the imbalance. While we could certainly do a better job of ensuring the basics are met, our largest challenge remains an unreasonable business model, one that can only be solved with a balanced, long term approach.

February Financial & Operational Review
2017 Audit: The auditors completed field work for the 2017 financial audit a couple of weeks ago. Preliminary results point to a clean audit with no findings and sufficient cash for reserve additions in accordance with the July 2017 updated reserve policy. Representatives from EGP will review the final audit in April’s board meeting. Transfers to reserves will be made following April’s board meeting.
2018 YTD Revenue: While net revenue is currently ahead of 2017, several operational decisions have contributed to year over year revenue decreases for a handful of departments. Those decisions include:

- Suspension of vehicle decal sales until the gate project is completed. That project’s completion date has been extended due to antiquated badging software.
- Pickleball annual memberships
- Fitness pass shift from short term to annual

Additionally, golf revenue is currently tracking behind last year and behind budget, due to weather.

Food & Beverage Services: Several years ago, F&B services were subsidized by approximately $1mil annually, which became unsustainable following the loss of financial and manpower support from Cooper Communities and NRPI. We continue evaluating F&B offerings and their financial health as shown in the operational metrics. As we field concerns, we are finding that many people are remembering facilities like Balboa Club & DeSoto Club during these heavily subsidized periods, which were also before several more golf courses and other F&B options were added in and around the Village. Just as 9 golf courses are a challenge to fill, so are the F&B facilities that attempt to support them.

As of February, nearly $22k is outstanding from F&B vendors, coming out of the winter season. We continue to work with the delinquent parties to identify the least disruptive path forward.

For this reason, I am strongly suggesting a demolition of the Balboa Club facility and reconstruction with a more manageable facility, at some point in the future. While I understand the mixed emotions such a suggestion will elicit, I believe we should heed the lessons learned from the DeSoto Club remodel, as well as the CMPs suggestion to begin paring back unnecessary infrastructure to more manageable levels.

We are, however, very excited about the new vendor coming to Isabella Golf Course in a few weeks. The Saint at Isabella promises a Cajun flair, in addition to traditional grill options, which supports our goal of expanding the variety of food offerings among our various facilities.

Operational Dashboard: Thank you to Liz for continuing to add new financial metrics to page 10 of the financials. This month she’s added metrics for Public Works, Public Utilities, P&I, and public safety. These results will be discussed in more detail at the end of the 1st quarter.

Real Estate Sales:
2018’s new home permits continue outpacing the last two years, with a total of 6 thus far. As of February, Village Homes & Land had the following activity:

- 1 existing home closing and 2 more under contract
- 14 lots under contract
- 15 referrals to other realtors

This year, we also began tracking satisfaction scores of visitors to Village Homes & Land. On a 1-5 scale, with 5 being best, current average scores are:

- Village Homes & Land staff, 5
- Hot Springs Village in general, 4
- Homes and land choices, 4