Memo

To: Hot Springs Village Board of Directors
From: Lesley Nalley, Chief Executive Officer
Date: May 16, 2018
Re: Monthly Board Meeting Updates

Financial Review

Of important note this month is the $784k addition to reserves. As discussed last month, the 2017 results netted reserves beyond what were budgeted. Both the Non-Utility and Utility Reserve accounts reflect additions of $584k and $200k, respectively (see pages 5 & 6 of the financial package).

On page 7 of the financial package, note the bottom line is currently tracking better than 2017 by $280k. Despite year over year revenue reductions related to pickleball and vehicle decals, as well as annual fitness pass revenue allocated over 12 months vs previous short-term fitness passes revenue recognition, the year to date operating results show $470k more in operating revenue this year. As noted in the packet, golf, recreation and public works revenues are currently behind 2017. Increases include the following:

- $57k in additional net assessment revenue from a combination of the 1.5% CPI and additional assessments billed from increased property sales activity
- $46k in additional Village Homes & Land activities (note discussion below)
- $25k in Public Safety, with $11k relating to compliance fines issued and the rest related to ambulance fees
- $240k in Public Utilities from the multi-year rate increase designed to properly reserve for future repairs and maintenance
- $30k in additional Permitting and Inspection fees from increased construction
- $123k in additional Food & Beverage Revenue – this subsidy is not yet within budgeted levels but the continued positive feedback points to a stabilizing F&B experience. Kudos to Magdy Hussein and team for their quick action on bringing DeSoto Club on line.

The operating subsidy is tracking behind 2017 and cash available for operations is $971k ahead of last year. 2018 is off to a very strong start.
**Delinquent Assessments**
As discussed in previous Board meetings and CEO memos, much progress has been achieved since additional legal collection steps began in late 2015. While continuing to aggressively pursue all delinquencies, following last year’s Saline County Court ruling on the NRPI successor entity suit, it was noted that significant payments on these debts should not be expected. However, we are continuing to work with legal counsel on various strategies and our legal fees remain under past due amounts collected.

Over the course of this initiative, more than $1.5mil has been collected ($1mil in 2016, $407k in 2017 and $98k through April 2018). We have implemented three escalation levels:

- Internal member service phone calls – between 2017 & 2018 this netted $137k
- Third party collection agency – between 2017 & 2018 this netted $339k
- Litigation – between 2017 & 2018 this netted $29k

**Real Estate Sales**
2018’s new home permits are outpacing each year since 2012 with one exception. In 2015, Mt. Carmel began another phase. Through the end of April 2018, 23 new home permits have been approved and in looking at the ACC minutes, May’s numbers will also come in ahead of prior years. As of April, Village Homes & Land had the following activity:

- 2 existing home closings
- 1 spec house closed and the permit for a second spec approved
- 20 lots closed and 3 under contract
- Buyers came from Arkansas, Texas, Louisiana, Canada and Wisconsin
- 483 leads have been generated by print, digital and radio advertising
- 49 referrals to other realtors
- 1 new builder joined the guild with coverage in state and local newspapers
- Satisfaction score of Village Homes & Land remains at the highest score

These results represent $60k of one-time sales revenue, annual recurring assessment revenue of $12k, permitting and inspection revenue, and yet to be determined amenity fees. As noted above, the sale of POA properties that were previously unproductive added new revenue in multiple places within the financials.

**Comprehensive Master Plan**
With last month’s adoption of the comprehensive master plan, the consulting team is finalizing the document updates and we plan to post the final document next week. I am also in the process of developing a three-year Phase I implementation strategy, which I will present in the June board meeting. As the CMP lays out, this strategy will balance three pillars of building and protecting value:

- Protecting Current Value (Existing Infrastructure) – See Section 6 of the CMP for the 3-year O&M discussion. Please recall last month’s Board meeting discussion where the special assessment option is being removed from immediate consideration. We will revisit their usage following the Declaration amendment vote, completion of currently open projects and consensus on the Phase I implementation strategy. Please note Element 2 of Section 6 of the CMP which discusses revenue gaps and solutions.
• Building New Value (Innovation & Development) – See Section 4 of the CMP called Interventions. This section includes various designs from town center concepts to alternative neighborhood configurations. As noted throughout the CMPs development, these designs are preliminary and do not represent approved projects or approved expenditures. Please note Element 2 of Section 6 of the CMP which discusses revenue gaps and solutions.

• Meeting Day to Day Service Needs (Service Gaps) – See Section 7 of the CMP for a collection of identified service gaps.

I strongly encourage all property owners to get involved in the annual budgeting process (kicks off with committees in late June) that will guide individual development, funding and spending decisions. I am thankful to see so many people discussing and debating the CMP elements. I would, however, caution everyone to stay personally informed. This plan by its very name “comprehensive” is intentionally developed and intended to address many issues, some quite complex and longer term to implement and others more simplistic. Each strategy calls for its own business model, as one size most certainly does not fit it.

This plan at its very core is meant to preserve what we already find special about HSV and continue building upon our strengths so that future generations can say the same. The value of the lifestyle provided by 9 golf courses, 12 lakes, miles of trails and nature and endless opportunities for recreation and fun are priceless. Our unique offering deserves to be protected, not diminished into an anywhere USA suburb, as so many other large-scale communities have found themselves when not choosing wisely at their cross roads of suburban sprawl’s broken model (Please google suburban sprawl repair). Through the sharing of expertise and uniting around our vision of remaining “America’s premier active lifestyle community”, I trust we will continue posting the strong financial and operational results that the team has maintained during the last 18 months. And I trust that we will continue being the place to live our dreams.