Memo

To: Hot Springs Village Board of Directors
From: Lesley Nalley, Chief Executive Officer
Date: August 15, 2018
Re: Monthly Board Meeting Updates

Financial Review

This month’s financials underscore our focus on deferred maintenance projects, service improvements and metric tracking. Highlights include:

- $1.8mil (of the $4.6mil budgeted/carried forward) in capital spending YTD, the majority of which relates to water and waste water projects, fleet purchases, and the pickleball project. Notice related decreases in both operating cash and restricted cash.
- Annual depreciation totals $2mil, which is greater than the assets added thus far, pointing to those end of life assets that are driving the “protecting current value” CMP pillar.
- $784k added to reserves since this time last year
- $352k in net new debt added, as a result of the ladder truck purchase, offset by $550k in principal paid off for the DeSoto Club loan and waste water bond.
- Workers compensation spending went from $255.51 per employee in 2017 to $96.20 this year. We saw a slight uptick over last month, but overall a 62% improvement from 2017.
- Growth in operating expense, as budgeted to address maintenance and service gaps, is 2% lower than the growth in revenues (8% vs 10.14%)
- We continue to see a decrease in member and reciprocal golf rounds, while visitor and tournament rounds are up from the prior year. Even so, golf revenue is $154k ahead of last year and the subsidy continues to track lower than 2017.
- The Food & Beverage Division is posting expenses in excess of revenues and remains a focus.
  - COGS as a percentage of sales is 4.23% over budget. Purchasing and inventory practices are currently under review. Magellan Deli & Waypoint posted month over month improvements in this metric.
  - Labor as a percentage of sales is 3.13% over budget. Balboa Club, DeSoto Club, Ponce Center Bar and Waypoint each posted month over month improvements in this metric.
  - Once DeSoto Club operations are stabilized from the introduction of a new chef, F&B Director Magdy Hussein will resume his focus on labor pooling and staffing strategies across the division, while remaining sensitive to our members’ service level expectations.
  - We wish our seasonal employees well as they return to college this fall and thank them for their service over the summer.
Real Estate Sales & Discovery Packages
Year to date growth-focused activity includes:

• 40 new home permits approved; 49 purchased
• 17 discovery packages
• 2 existing home closings; 1 under contract
• 1 Village Homes & Land spec house closed, 2 under construction
• 24 POA-owned lots closed and 2 under contract
• 813 leads have been generated by print, digital and radio advertising
• 72 referrals to other realtors
• Groundbreaking ceremony for 3rd Builders Guild Member, Jay Harrison, held on August 8th
• Zillow reports Hot Springs Village property values are up 4.1% as of July

Community Engagement
Staff continue to hold Forward Together Forums, supporting the deliberative engagement strategy discussed during June’s CMP Phase I Implementation presentation. Sessions, thus far, include the following and we look forward to holding more of these solution-based forums.

• Lake Cortez Shoreliners – July 27th
• Balboa Golf Course & Clubhouse – August 9th
• Lake Balboa Shoreliners – August 16th

Pages 10 & 11 of the Comprehensive Master Plan offer a visual of “the multiple influences and factors involved in operating and sustaining a successful community and how they are all important to achieving the Village’s overarching goal” of creating and protecting value through sustainable growth. We sincerely appreciate those property owners who are engaging with us, and one another, on specific solutions to do just that.

Declaration & Articles of Incorporation Vote
Thank you to the Board, staff, property owners, and community partners for participating in last week’s townhall. As described in the Friday digest, a new webpage http://explorethevillage.com/vision/2018vote/ was created to capture and communicate the various mailers, meetings, and Q&As surrounding this important vote.

Our next townhall and mailer will focus on the proxy and ballot formats, as well as answering remaining questions. Questions may be emailed to 2018vote@hsvpoa.org and will be answered in the running Q&A document posted to the vote webpage.

We estimate that nearly 12,000 votes will be needed to reach a majority and quorum. Using that estimate, 8,000 yes votes would be needed to pass Declaration amendments. The Articles of Incorporation Amendment requires a majority vote of all eligible members.

Together these amendments provide a better foundation for property owners to control and influence the future and value of Hot Springs Village. Vote yes for a prosperous future!