INVESTING IN OUR FUTURE
WHITE PAPER: NON-GOLF AMENITY SUBSIDIZATION

All Hot Springs Village amenities are subsidized from general assessment revenues, as none generates sufficient funds to be self-sustaining.

Some generate no revenue at all, and are quality-of-life enhancements to our community. They exist for the enjoyment of residents, visitors and potential future investors and property owners. Examples of these amenities include beaches, gates, and trails.

BACKGROUND
In order to understand our amenities subsidization experience, it is necessary to review Cooper Communities business practices and compare our current amenities methodology.

Hot Springs Village was founded by Cooper Communities on the principle of low-cost, high-quality amenities subsidized, beyond the self-sustaining level, from monthly assessment revenue. We support this philosophy and continue the practice even though the suite of current amenities is older and more operationally complex than those supported during the Cooper years.

Amenities which demonstrate low utilization rates but increasing need for subsidy must be considered for elimination, while new services and activities emerge to take their place.

Early on, Cooper Communities constructed and, at the onset, operated many of our amenities in order to attract buyers. The more amenities developed, the more property sold. As Cooper sold property, the assessment stream grew. With the conclusion of their sales program in 2005, the fiscal driver of amenities subsidies ceased to grow, reaching a top-end level from which future subsidies could be derived.

Nearly concurrent with the Cooper withdrawal, we experienced the same downward economy trend as other private communities and municipalities throughout the country. Unlike other communities, however, resident demand for new amenities and higher subsidies to current amenities increased, while revenue streams remained at their 2006 levels.

Our customer base continues to expect high quality, low cost amenities. Despite declining revenues and utilization, we continue to provide these services with as little impact to the end user as possible.
However, maintaining this business philosophy and focusing on the customer experience has attendant costs that are not being met with subsidy from the current general assessment pool. Without assessment and subsequent subsidy increases, facility maintenance will continue to be deferred and introduction of improved or new amenities will be at risk.

**MANAGEMENT OF AMENITIES**
Recreation/Lifestyle and Community Development is responsible for over a dozen cost centers. They fall under two categories:
- Food Services: Desoto Club, Desoto 19th Hole, Cortez Paradise Grill, Casa Coronado, Magellan Deli, Isabella Columbus Grill, Balboa Club/Lounge, Granada Terrace on the Green, and Ponce de Leon Mulligans
- Recreation/Lifestyle: Recreation Administration, Recreation Maintenance, Outdoor ‘Family’ Recreation, Coronado and Desoto Tennis, Coronado Community Center, Coronado Fitness Center, Ponce de Leon Center, Trails, Desoto Pool, Dog Park, Grove Park, Pickleball, Lawn Bowling, beaches on lakes Balboa, Cortez and Desoto, and Balboa and Cortez pavilions.

There are many programs taking place in the Recreation Department today that do not specifically fall into any of the aforementioned divisions. Examples of these activities include Rock Porch Sessions, Artisan Markets, Farmer’s Markets, Base Camp Programming, Oktoberfest, July 4, Cinco de Mayo, and Christmas celebrations to name a few.

**SUBSIDIES**
*Recreation* has operated at a subsidy level of $1,299,009 on average over the last four years (includes capital expenditures).

*Food Service* has operated at a subsidy level of $248,966 on average over the last four years (includes capital expenditures). *It is important to note that Balboa Club and Desoto Club account for 63% of the total food service subsidy.*

Food Service subsidies have decreased 39% in the past four years. This improvement is due to renegotiated third party contracts and a shift in capital purchase responsibilities from the owner to the lessee.

Recreation/Lifestyle subsidies have increased 105% in the past four years. This trend is the result of multiple business decisions and cultural factors:
- Parks and Grounds Maintenance was transferred to the Recreation Department from Public Works in 2012. This non-revenue-producing cost center accounts for 35% of the total Recreation Subsidy.
- Membership desires for increased, altered or new services (lifestyle programming)
- Low utilization rates
- Transition to post-Cooper business model
- Costs to address deferred maintenance. Examples include HVAC replacement, rolling stock, Woodlands Auditorium sound improvements and Desoto Pool failures
- Allocation of all tax and insurance costs from Administration to each cost center, with an annual impact of $194,000

Note: Each cost center has its own budget, and subsidies are tracked independently.
SPENDING

The decision about how to allocate funds within each cost center is based on utilization. Other factors such as imminent failure of equipment and community safety are also considered.

The Department Head prepares the budget with recommended Capital and Operational costs as well as revenue projections. The General Manager and CFO then evaluate the recommendation within the confines of overall budget parameters and correlation to other department requests.

The final staff budget is then presented to the Board of Directors. The Board of Directors, after presenting to the membership, considers public input and makes final decisions on spending and subsidy levels within each division and cost center.

Overall recreation utilization is on a downward trend. This is attributed to:

- An aging demographic
- Recession and less discretionary spending
- Change in customer base from Silent Generation, to Boomer and Generation X
- Less emphasis on organized games and sports, towards casual outdoor activities

CONCLUSION

Hot Springs Village continues to operate under the same model that was created by Cooper Communities more than 40 years ago. However, our leadership and business management process has changed. We remain committed to excellence and the philosophy of high quality, low cost amenities. Subsidization of amenities will continue, but it is incumbent on leadership to be fiscally responsible and strive to reduce subsidies whenever possible.