INVESTING IN OUR FUTURE:
Assessment Increase Q&A

Hot Springs Village faces a major financial challenge that will greatly affect our future. An assessment increase has been recommended and all HSV members in good standing will be asked to vote on this issue. If approved this fall, the new rate would take effect January 1, 2015.

The assessment increase recommendation is a call to action for our future – to restore the financial health of the Village and keep things running properly. This strategy will complement an aggressive marketing approach by the POA to attract new lot and homebuyers as well as developer investment to promote and grow.

The following information reflects answers to questions and concerns raised by Villagers in emails and during the July 16 town hall meetings. The goal of this Q&A is to address these issues in a way that will aid Village members in making an informed choice.

1. Why an assessment increase?

- The overall goal of the recommendation is to raise sufficient money to maintain HSV facilities and services at a high level that will protect property values, attract new, long-term development, and carry the Village into the future.

- HSV faces the reality of infrastructure that is aging, and in many cases, has not been properly maintained due to lack of funds in recent years. Numerous high-ticket items have been deferred far too long.

- In the meantime, decreased assessment revenues because of non-performing lots have placed a significant burden on our budget and our ability to maintain infrastructure and services at the proper level.

The bottom line: As of June 30, 2014, there were 8,822 lots – 25.8 percent of the Village total – no longer generating assessment income for the POA. That number comprises 6,477 lots whose assessment dues are 60 days or more past due, and 2,345 lots in the POA inventory, having already been returned to the POA. Those lots represent $3.2 million in lost assessment revenues in 2013, and $13.8M in uncollected assessments since 2006.

- When Cooper Communities began developing the Village in the 1970s, facilities and roads were new and maintenance needs were low, so HSV’s financial practices did not include funds for long-term maintenance and capital needs. Now, 44 years later, we need to change that business model by recognizing the
need for additional revenue to restore and maintain services and facilities that, in turn, will strengthen property values.

- An assessment increase offers a solution for funding deferred infrastructure repairs and ongoing capital needs. It’s an opportunity to keep the Village functioning properly, protect property values, and build a long-term foundation on which to grow.

2. What will the assessment increase pay for?

- The additional revenue will be used toward deferred and ongoing infrastructure maintenance, ongoing capital needs, and unforeseen emergencies.

Having cash reserves for unforeseen emergencies is good planning for any community. For example, the April 2011 tornadoes cost the Village more than $600,000 in cleanup efforts. Following the December 2012 ice storm, we were fortunate to receive more than $1 million in cleanup funds from FEMA, Saline County and Garland County; however, we cannot count on that type of financial support in the future, which means we’ll need to be ready to respond if necessary.

- Examples of priority infrastructure repairs.

(a) Village roads
   **What this means:** Maintenance and surfacing of the Village’s 470 miles of paved roads.
   **Projected cost:** $6.3 million over five years

(b) Water supply
   **What this means:** Replace deteriorating water supply lines in the older parts of the Village to prevent service interruptions, water losses, and excessive repair costs.
   **Projected cost:** $1.25 million over five years

(c) Sewer / rainwater infiltration issues
   **What this means:** Replace broken sewer pipes and repair manholes (primarily in the west end of the Village) that allow excess water to seep into sewer lines resulting in the overloading of our waste water treatment plants, and putting us at risk for fines from the Arkansas Dept. of Environmental Quality.
   **Projected cost:** $2.5 million over five years

(d) Rebuilding the Cortez fire station roof
   **What this means:** Reconstruct the roof which is currently structurally unstable.
Projected cost: $100,000 – $180,000

(e) Culvert replacements
What this means: Repair/replace broken drains under Village roadways.
Projected cost: $500,000 in 2015; then $250,000 per year for maintenance

(f) A/C units in the Woodlands Auditorium
What this means: Continue replacing all inefficient, costly units in the Woodlands, and install a new control system to coordinate all A/C units in the Ponce de Leon complex. (Note: There are A/C units in other POA buildings that will need to be replaced in the future.)
Projected cost: $316,000 over three years

(g) Lake management program
What this means: Performing basic maintenance on Village lakes.
Projected cost: $150,000/year

(h) Replacing high-ticket equipment
What this means: Replace rolling stock like fire trucks ($750,000 each), trash trucks ($150,000 each), police cars, dump trucks, mowers, tractors, etc. – all key elements of maintaining our quality of life.
Projected cost: $2 million per year

- Funding is also needed for the deferred infrastructure maintenance and repairs on the Village’s 94 buildings and other facilities. Those expenses will be addressed over time depending on the priority of repairs and available funds.

- Capital projects currently in the POA’s five-year plan will be reviewed and voted on individually by the Board to be sure those projects are needed and cost-managed. For example, if golf rounds and revenues continue to decrease, total renovations of the Balboa and Coronado golf courses may be deferred until such time as a significant increase in usage justifies the capital expenditure, or another usage is determined. In the interim, however, minimal repairs on items like an irrigation system may occur to maintain a course at a basic level.

- Another consideration for continued capital funding may be for general use facilities like the DeSoto Club. The current plan is to fund a Desoto Club/Outdoor Pool Complex using $700,000 previously reserved for pool renovation, $450,000 in insurance proceeds, and an estimated $1.1 million in additional funding.

- **Revenue from an assessment increase will not be spent on new amenities or new programs.**
3. What is the plan?

Hot Springs Village is taking a three-pronged approach to financial recovery, strengthened property values, and future growth. The **assessment increase** - which is the only component Village members in good standing will be voting on in the fall - is one of those prongs.

**Three-pronged approach for the growth of the Village:**

1) **Assessment increase:**
   A rate increase is the best action that can be implemented in a timely manner to begin taking care of our most pressing infrastructure and capital needs.

2) **Improved amenity performance:**
   Going forward, we need to decide how best to lower subsidies without sacrificing quality, and without placing the full burden on our amenity usage fees. For example, increasing golf revenues with more rounds from guests and visitors is but one way to increase that amenity’s performance.

3) **Funding for future growth:**

   While the other two “prongs” of the plan are aimed at maintaining the current level of facilities and services, this is the long-term component which is aimed at growing the Village and raising funds for its future operation and improvements.

   This component consists of:
   - Outreach efforts to lot owners to reverse or at least slow the trend of abandoned lots;
   - A coordinated marketing campaign to attract new lot and home buyers;
   - A program to attract developers to help finance the growth of HSV;
   - The development of a variety of home and lifestyle options to broaden our attraction to more buyers;
   - The development of new sources of revenue like a capital buy-in fee on new owners purchasing property in the Village; and,
   - A continuing effort to improve the efficiency of our operations.

4. What is the impact of not funding maintenance projects on our infrastructure and capital needs?
If we continue to defer key infrastructure projects, the cost for repairs or replacements will increase. Further delays will result in much greater expense long-term, and could cause building closures and major breakdowns in services in the short-term.

A continued decline in our infrastructure will reduce the quality of life in the Village and could contribute to an increase in non-performing lots. We cannot afford to lose our competitive edge in the real-estate marketplace.

Maintaining the Village will attract new property owners and developer investment to help grow the Village.

An assessment increase will also help us establish a cash reserve allowing us to respond more quickly to unforeseen emergencies.

5. Is a $65 monthly rate adequate? Will that amount solve our problems?

The POA and Board believe that $65 per month will sustain our level of services and facilities through 2020 while allowing time for the other two elements of the three-pronged approach (refer to Q&A #3) to position us where we need to be financially.

The recommended assessment increase is not intended to solve all problems at the expense of current Village members. As our community grows, our revenue will grow, giving us additional resources for infrastructure and capital needs.

It will be the responsibility of POA management and current and future POA Board members to:
(a) make prudent decisions on how our money is spent,
(b) address the most critical infrastructure and capital needs,
(c) keep our current amenities in good order,
(d) implement an aggressive marketing campaign, and
(e) identify new revenue sources to fund our future growth.

6. Will we continue to subsidize amenities?

One of the responsibilities of a homeowners association is to provide and maintain basic amenities for the collective whole that could not be done as individual property owners.

Amenities are a key factor in attracting homeowners to a community and a primary reason why most of us moved to the Village. Some residents don’t play
For example, an outdoor swimming pool is a basic amenity found in almost all high-quality communities, and one that most people expect to find when considering a move to the Village. In fact, this was one of the first amenities built by John Cooper because he recognized its value when marketing the Village. The cost of repairing our 40+ year-old pool exceeds the cost of replacing it, and we have an option of replacing it with a version which requires less actual maintenance and staffing, while still fulfilling the community’s needs.

Maintaining a variety of amenities keeps us competitive in the real-estate marketplace. However, we need to carefully review all future subsidies, cost-saving measures, and usage fees to keep our expenses and fees at a reasonable level.

7. Will the assessment increase include funding for new amenities?

No. The third component of our three-pronged approach to financial recovery, strengthened property values, and future growth (refer to Q&A #3) includes a plan for funding future growth, which is separate and independent from the assessment increase.

Providing amenities is an important part of creating value and a good quality of life for current and prospective residents. However, it must be done at an appropriate level based on the financial health of the community.

8. Why a two-tier approach to an assessment increase?

A two-tier system is an equitable method of increasing revenues for priority infrastructure and capital needs without accelerating the rate of returned lots.

No system is perfect or equitable in all scenarios. However, having two tiers draws greater revenue from properties that receive the greatest benefit from the services, amenities and overall quality of life provided by the Village. All improved properties receive benefits equally regardless of amenity usage or property values.

The majority of the assessment revenue is coming from owners who don't use or need what the money pays for. An increase in assessment revenue will not benefit them directly. It has been that way throughout the history of the Village,
and it will continue to be that way until either we change our assessment format or we get more than half of the lots developed. Since it is quite likely we will not achieve 50% developed in the next decade or more, it must be time to change our assessment format.

If we implement the $65 assessment on improved lots in January 2015, improved lots will pay 46.1% of the assessment revenue and unimproved lots will pay 53.9%. The unimproved lots would still be paying more than half but we would be moving in the right direction, the fair direction.

9. Why can’t assessments be based on the value of each property? (Sometimes known as “ad valorem”)

Several alternatives to the proposed increase were considered. The Board feels that the current proposal is the best answer to the Villages problems and structure. In addition to being valid in Arkansas, the proposed increase is easily administered, equitable and reasonably reflective of the relative benefits received by all property owners.

10. When will the ballots be sent out and will the votes representing the non-performing lots be used in the count?

- Ballots will go out 30 days in advance of the election date, only to Village members in good standing. Once the election date is set by the Board, it will be announced on the POA website and communicated through various print and electronic communications. There will also be instructions about the return date for the ballots and when the final vote count has been determined.

- The Board must cast the votes representing POA-owned lots. However, those votes must be cast in the exact proportion as the HSV membership votes based on the returned ballots. In other words, the POA votes cannot change the outcome as reflected in the returned ballots; they would have meaning only for purposes of attaining a quorum if needed.

If you have additional questions about the assessment increase topic that are not addressed here, please send them to boardmembers@hsvpoa.org.