



November 10, 2013

**Greetings!**

*As the 2013 HVLA Director Election Campaign heads into the homestretch, this is a good opportunity to address several key issues likely to challenge our Community in the years ahead.*

*In today's post, I'll discuss HVLA's finances, as they pose the most serious challenge to Hidden Valley Lake's wellbeing over the coming decade.*

*The November 5<sup>th</sup> issue of the Hidden Valley Lake Views (HVLA's official publication) focuses on the Association's finances. Most of the numbers published pertain to expenditures and revenues. Although this information is helpful for assessing the HVLA's financial health, they are not necessarily the most relevant figures for evaluating how well our assessment dollars are spent. Nor do they allow us to adequately understand how well HVLA is financially managed.*

*On page 14 of the November 5<sup>th</sup> issue is the projected five-year reserve fund (required by the Davis-Sterling civil code governing home owners associations in California). The tables contain lots of numbers, but only a few, in my opinion, are truly pertinent to evaluating HVLA's financial stability and strength.*

*The tables demonstrate the need to contribute a significant amount each year to maintain a reserve fund (in HVLA's case, \$500,000). Omitting this annual contribution would render the HVLA reserve fund insolvent by 2018 (or earlier) if historical replacement/repair expenditure patterns were to continue. Although important, this information does not provide the key statistic for evaluating our Community's financial health. To find it, we must dig a little deeper...*

*The cost of fully replacing our facilities and amenities is estimated to be \$9,548,120. Although likely to underestimate the actual replacement and rebuilding costs, we'll use this figure for our financial analysis.*

*The amount in the reserve fund is currently \$2,660,000, which translates to a deficiency of \$6,888,120 or \$2,108 per property (based on 3,268 individual properties). In other words, HVLA has only 28% of the amount required to fully fund the facilities/amenities reserve. Is this amount sufficient?*

*Not really.*

*According to the same report (p. 14), the "ideal" funding percentage is approximately 66% of the total replacement cost. It's unclear from where this "ideal" proportion is derived. Many of the most successful HOAs fully fund their reserve (i.e., 100%), and advertise this fact as a demonstration of financial strength.*

*By any measure, the HVLA's reserve fund is woefully underfunded regardless of whether 66% or 100% is used as the reserve-funding benchmark. Even by HVLA's definition of "ideal," the reserve is only funded between 36% and 40% of the desired amount over the next five years.*

*Why is the health of the HVLA's reserve fund so important? It serves as a bell-weather for how much cash is on hand for dealing with unforeseen circumstances that have a habit of popping up every now and then. One of the lessons learned from the recent "Great Recession" is that unlikely events ("Black Swans") have a tendency to occur when least expected, often with devastating impact.*

*This Community has been in receivership twice over the past 25 years. Although such a dire scenario is unlikely to recur, HVLA's history suggests it would be prudent to control expenses to the fullest extent possible.*

*The other key financial statistic cited in the November Views concerns Capital Improvement Projects (which pertain to new equipment purchases and development). \$500,000 is set aside each year for these CIPs.*

*Of several dozen requests (from a variety of HVLA committees), the Board has agreed to fund 12. The most expensive (\$133,058) is part of a larger Security Gate and Dispatch Operations Center (the total expense will exceed \$200,000, some of which was allocated previously). The least expensive allocation is for ventilation fans in the Equestrian Center Barn (\$5,000) and Soccer Goal posts for Ravenhill Park (\$5,500). The most controversial allocation is for a flush toilet at Ravenhill Park (\$63,500), which initially was endorsed by only a single Board Director, who publicly promised to ensure its installation. Eventually, the other Directors agreed.*

*The total allocated (for all 12 projects) is \$314,758, which is \$185,242 less than the \$500,000 set aside this year for CIPs. What happened to the other \$185,000, and why wasn't it used to fund other (presumably) worthy projects?*

*The answer apparently is that higher-than-anticipated expenditures in other components of HVLA's operations usurped these funds.*

*The recently announced 2% increase in HVLA dues for 2014 is a reflection of these unexpectedly higher costs, which are beginning to bite into HVLA's budget. This is likely to signal*

*the beginning of a long march upwards in HVLA annual assessments.*

*What is the single largest drain on HVLA's finances?*

*In terms of subsidized amenities, it is the Golf Course, which has lost between \$500,000 and \$650,000 per year for many years in a row.*

*The second largest money pit is Food and Beverage operations (hereafter, "F&B" or "the Greenview"), which has lost between \$113,000 and \$249,000 per year since 2002.*

*Because these operations are considered "amenities," they are not run as for-profit businesses or even as revenue-neutral entities. In effect, HVLA members subsidize their operations through annual dues.*

*For 2014, the estimated subsidy per property for Golf will total \$229 (home owners) or \$175 (lot owners). The estimated subsidy for F&B is \$29/\$22 (the actual F&B subsidy is likely to be much higher). Although these subsidies appear in line with how assessment funds are spent on other operations, this comparison is misleading.*

*Unlike other amenities, the Golf Course and Greenview are capable of increasing their revenue (and dramatically decreasing their losses) were certain changes were to be made in their operations. The other HVLA operations and amenities don't have a comparable ability to do so.*

*The Golf Course deficit could be substantially reduced if membership and greens fees were raised to cover 80% of operational costs (up from the current 50%). Because most of the frequent golfers live in Hidden Valley Lake or close by, there is little prospect of them going elsewhere. Increasing the fees for these individuals would significantly reduce the financial burden borne by non-golfing HVLA members.*

*The operational cost could also be reduced by eliminating complimentary golf passes entirely (as suggested by Wayne Clark, the golf manager) and by planting drought-resistant flora on the course's periphery. Further cost reductions could be effected by reducing the number of staff and/or renegotiating their labor contracts.*

*Lake Wildwood, our sister Community in the Sierra Foothills, requires their golf course to be entirely self-supporting (but contributes \$250,000/year to a fund for course maintenance and upkeep). If that community, so similar to ours, can do this, why can't we?*

*The Greenview restaurant could increase the price of their red-meat dishes, as well as develop more creative approaches for attracting new customers. Wayne McMurray, F&B manager would probably like to, but is constrained by the Board from doing so.*

*Neither the Golf Course nor the Greenview need be concerned with the bottom line because they are currently run as amenities wherein their losses are covered by HVLA dues. This needn't be the case. Many HOA-associated golf courses are either for-profit or revenue-neutral enterprises. Why shouldn't Hidden Valley Lake follow their example?*

*Most of the other expense categories listed on page 6 of the November Views are non-discretionary. They pertain to administration, operations, security, the capital improvement and reserve funds, and the like. The only other expense category comparable to Golf and Food/Beverage is "Amenities (Lake, Pools, Park, etc.)." These will receive \$123/\$94 (homeowner/lot owner) in subsidies for 2014.*

*What distinguishes such "Amenities" from "Golf Course" and "Food and Beverage" (besides the much lower subsidy) is their much greater popularity. Hence, the subsidy per resident for non-golf amenities/facilities is substantially lower than that enjoyed by golfers.*

*Fewer than 5% of HVL residents golf frequently, and perhaps double this proportion dine frequently at the Greenview - yet these two amenities absorb over 60% of HVLA subsidies. Meanwhile, the Lake, Beaches and Swimming Pool, used by at least half the community, go begging for sums puny in comparison.*

*This concentration of discretionary funds on the favored few has been noted by many, and has engendered a sense of frustration and anger that has reached a crescendo with the proposed Hartmann Facility Construction Project.*

*This project would build a new restaurant, and in the process drain the HVLA's financial reserves to a dangerous degree. Moreover, in its current form, it would obligate home and property owners to pay \$400,000 - \$600,000 per year for ten years to repay the bank loan.*

*Because there are many non-golf-related amenities in desperate need of funds, one of two paths is likely:*

*(1) letting these orphan amenities deteriorate further, or*

*(2) increasing the annual assessment by an amount far exceeding the 2% - 3% annual increments projected (p. 6 of the November Views).*

*If HVLA history is any guide (e.g., 1995-2008 witnessed 10% annual increases on average), the increases are more likely to be 6% - 10% per annum for the ten-year span of the loan (2015-2025).*

*This upsurge in dues is likely to induce many homeowners to sell and move out. The net result will be a vastly altered Community and a net decrease in property values.*

*Many of the recent Board meetings have been consumed by*

*belabored discussions of picayune monetary issues. A recent example is the 30+ minute discussion of the discount to be offered property owners who pay the entire assessment at the beginning of the year. The difference among alternatives amounted to a few dollars per property.*

*Contrast this extended discussion with the treatment meted out to the Golf Course and Greenview. Their losses dwarf the amounts endlessly debated by the Board when it comes to the orphan amenities and related facilities. Yet the amount of time and attention paid to such financial hemorrhaging is paltry in comparison.*

*This is why the Board's current approach to HVLA finances is "Penny Wise, Pound Foolish." A different strategy is required for Hidden Valley Lake to prosper and thrive.*

*Later this week, in "The Restaurant to Nowhere," I'll discuss the Food and Beverage operation in our Community, and how its financial condition could be substantially improved.*

*If you haven't had a chance to check out the new electronic newspaper, "The Hidden Valley Lake Gazette," this would be a good time to do so - [www.hiddenvalleylake.info](http://www.hiddenvalleylake.info). Your comments, content contributions and suggestions are welcome.*

*And .... if you haven't yet cast your HVLA ballot, time is running out! It's due by Friday, November 15th if sent by mail, and by noon, the following day if hand-delivered to the HVLA administrative office.*

*Speaking of elections, congratulations to Judy Mirbegian, who was re-elected to the Community Services District Water Board on November 5th. She has done a great job as a Director (and President) and will continue serving our Community well in the years to come.*

*Sincerely,*

*Steve Greenberg,  
Candidate for HVLA Director*

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Believe in Steve! For HVLA Director  
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