"Because it's **YOUR** money."

HVL United

www.hvlunited.org

Do The Math August 16, 2013

Greetings!

In last week's communication ("Zero-Sum Game"), the scope of HVLA's red ink gushing from two of its operations - the Golf Course and Greenview Restaurant - was assessed, and its implications for Hidden Valley Lake residents apprised. The $800,000+ annual losses of these two operations consume a large chunk (last year, 61%) of funds used by our Association to subsidize Community amenities and facilities. As "Zero-Sum Game" portrayed, such outsized subsidies reduce the amount available to maintain the Lake, the Beaches, Trails, Tennis Courts, Community Center, Equestrian Center and so on. What can be done to rectify this imbalance to ensure these popular amenities don't deteriorate further?

This issue assumes even greater urgency as the fate of the Hartmann Clubhouse is debated among the Board of Directors. So far, the options considered for the Hartmann, which contains the Greenview, as well as Mulligan's Bar and the Golf Pro Shop, range in cost between $5.5 million and $8 million. Judging from comments and questions made by the Board at the July 25th Workshop, most Directors favor a plan costing well north of $6.5 million.

As recently as the mid-1990s, HVLA's annual assessment was $70, less than one twenty-fifth of the current $1,800 charge. Old-timers admit the roads were in disrepair and the gates didn't work properly. But the Golf Course was playable, and the Hartmann Restaurant and Bar served food and drink. Somehow, these operations managed on an assessment of $70/year. What's changed?

As the Community's roads and other infrastructure were repaired or rebuilt the assessment crept up, first to a few hundred dollars a year, and then by 2007 to a level close to what we're paying now. This "assessment creep" coincided with a building boom, as hundreds of new homes were built, contributing to HVLA's bottom line. At some point, a component of this additional revenue began siphoning off to the Golf Course and Restaurant.

As recently as 2011, Hartmann Food/Beverage operations were subsidized (by HVLA members) to the tune of $234,000/year. The loss was even higher for the previous year - $262,000. This year's projected loss of $120,000 is half these enormous sums, but has only been accomplished by curtailing staff hours and benefits. How much further can such operational costs be cut is open to question.

Last year, an HVL resident paid the Greenview $150 for the privilege of throwing a Halloween party for her kids and friends in one of its side rooms. At 8 PM sharp, the party was informed they would have to leave despite having arrived only an hour earlier. Up until that moment, no one had informed them the room would close at such an early "witching hour." They offered to buy some food and drink at the Greenview if they could only stay awhile longer, but were rebuffed with a "We don't need your money," by the Restaurant manager, who duly escorted the disappointed kiddies and their stunned parents out the door. During a year when the HVLA subsidy to the Greenview was "only" $114,000, it may come as a surprise that the restaurant is in "no need of money" from paying customers. Is the Greenview that confident of HVLA subsidies going forward that it can safely turn away additional revenue?

The Golf Course operations are a separate case, one that merits close attention. Last year, the deficit was nearly $600,000. This year's loss is projected to be 17% higher - $705,000. Golf Courses are expensive to run, which is one reason why the fees normally charged for a round of golf are so high. In elite courses, such fees can run into the hundreds of dollars per round. Besides the staff tasked with running the operation, there's the cost of watering the fairways and greens, caring for sand traps, water hazards and the like. This is one reason why Golf Courses associated with Sun City Communities (e.g., the Roseville operation profiled in "Zero-Sum Game") are financially (and administratively) independent of the Home Owners' Association. A comparable separation of "Golf and HOA" would require a private company to come in and run HVL's Golf Course as an independent operation.

In Lake Wildwood, another Community profiled in "Zero-Sum Game," the Golfing operations are part of the HOA, like they are in Hidden Valley Lake. One Wildwood resident wrote to amend some of the information in last week's communication. Although the Wildwood Golf Course is now "self-supporting," this is a newly imposed mandate by the HOA. In the past, golfing operations were subsidized to the tune of $200,000 - $300,000 a year. Wildwood can no longer afford this subsidy, so has asked the Golf operations to become entirely self-supporting. How it will do so is unclear, but might be worthwhile considering for Hidden Valley Lake as well. One wonders what Wildwood would think of HVL's $700,000+ deficit? Their Community is about the same size as ours, meaning that past subsidies are less than half (per household) of what the typical home/property owner coughs up to support HVL Golf operations currently.

As it happens, HVL's Golf Pro (and manager of its golfing operations) has had similar concerns. By all accounts, Wayne Clark is a superb Golf manager. He has improved many aspects of Golfing in our Community, and is extremely popular in the golfing community. Wayne has made a number of suggestions for reducing the Golf Course's red ink, including the adoption of drought-tolerant flora for areas on the course's periphery (which would significantly reduce the operation's water bill) and clamping down on abuses associated with the free-golf-pass program. **The Board has vetoed the first suggestion and adopted only a watered-down version of the second, despite their potential for significantly reducing the cost of running the Golf Course (and hence reducing the subsidy required to cover the operation's losses).**

At the July 25th Workshop, our General Manager Bill Chapman, ran through the numbers associated with rebuilding the Hartmann Clubhouse. A $3 million loan would translate to $370,000/year in debt service (over the 10-year lifetime of the debenture), and a $5 million loan would require $600,000/year over the same period.

Because so much of the Hartmann's operations (Restaurant, Bar and Golf Pro Shop) are linked to the Golf Course it makes sense to view the financials associated with its rebuilding as an adjunct to the Golfing operations. If the Board were to settle for the least costly of the current construction plans under consideration, the effective cost per year would amount to approximately $670,000 a year. The financial basis for this calculation is as follows:

Debt service on a $3 million loan = $370,000/year (for 10 years)

HVLA cash contribution of $3,000,000 = $300,000/year (for 10 years)

$3,700,000 + $3 million = $6.7 million

Hence, the total cost of the Hartmann Clubhouse construction would be $6,700,000. Half of the funds would be paid up front from HVLA's cash reserves, while the balance would be paid from a bank loan to the Community.

Adding this yearly cost of rebuilding the Hartmann ($670,000) to the $825,000 projected deficits associated with the Golf Course and Hartmann operations raises the **total subsidy for Golf-related operations and services to nearly $1.5 million a year**. This staggering figure represents about **30% of the total annual assessments** collected by HVLA.

Because the Golfing operations deficit has been growing of late, there is a real possibility the subsidy will grow even larger in the future. Either the non-golf amenities/facilities will see their financial support dwindle even further or the annual assessments will have to rise (or both) in order to feed the Golfing operations growing appetite for money.

What can be done to avert this unfortunate scenario? There are several potential remedies, most of which mandate a substantial reduction in the Golf Course and Restaurant financial deficits.

For the Golf Course, the deficit could be reduced through one or more of the following actions:

(1) Increase the cost of Golf membership and daily round fees

(2) Reduce or eliminate the free golf passes provided to members

(3) Increase Golf Course utilization by attracting the young and those living outside HVL

(4) Reduce the cost of watering the course through the use of drought-tolerant vegetation wherever possible

(5) Reduce the number of Golf staff

(6) Reduce the course from 18 holes to 9

(7) Have the Golf operations managed by an outside company

The Hartmann Clubhouse Food and Beverage deficit could be reduced through one or more of the following:

(1) Significantly improve the quality of food served and thereby increase the Greenview's "load factor"

(2) Eliminate breakfast meals

(3) Reduce the number of days open from 7 to 5 (or fewer)

(4) Eliminate full food service to a reduced menu offered through the bar (i.e., close the Greenview)

(5) Have the Food and Beverage service managed by an outside company

There are undoubtedly other economizing measures that could be taken - readers' suggestions are welcome!

Given that our Community is scheduled to subsidize the Golf and Restaurant operations to the tune of $825,000 this year, how can we prevent even more of our hard-earned money being shoveled down this black hole of financial largesse?

The answer is "linkage."

Linkage in this context means that the ability to spend money for a given operation or purpose depends on comparable savings in other distinct, but "linked" domains.

Because the Hartmann Clubhouse is, by its location and clientele, closely linked to the Golf Course, its operations (including its financial losses) should be considered as part of the overall Golfing operations in HVL. Moreover, the cost of renovating or rebuilding the Hartmann should also be linked to the cost of hosting Golf in our Community.

In essence, what our Community gives to Golf in one domain (e.g., a new Hartmann Complex) should be counter-balanced by what Golf saves in other domains (e.g., reducing the costs of running the Golf Course and Hartmann Food/Beverage). Through such financial linkage the subsidy to Golf-related activities and facilities could be capped at a specific target, say $825,000 (this year's combined projected losses for the Golf Course + Hartmann Food/Beverage operations). Such linkage (and subsidy capping) may be the only effective method for keeping these operational deficits down to a level the Community can afford.

Let's consider how such financial linkage might work in a hypothetical scenario:

(A) Projected (Baseline) Golf Course Loss for 2013 = $705,000

(B) Hypothetical Golf Course Loss for 2014 = $400,000

(A - B) ... 2013 - 2014 Golf Course Deficit Reduction = $305,000 (the amount that can be applied to the Hartmann Clubhouse Renovation/Rebuilding)

(X) Projected (Baseline) Hartmann Food and Beverage Loss for 2013 = $120,000

(Y) Hypothetical Hartmann Food and Beverage Loss for 2014 = $55,000

(X - Y) ... 2013 - 2014 Hartmann Food and Beverage Deficit Reduction = $65,000 (the amount that can be applied to the Hartmann Clubhouse Renovation/Rebuilding)

(A - B) + (X - Y) ... Total Deficit Reduction Savings that can be applied to the Hartmann Clubhouse for 2014 = $305,000 + $65,000 = $370,000 (sufficient for a $3 million construction project paid over the span of a 10-year loan)

In principle, this computation would be performed every year. If the Golf operations and/or Hartmann Food/Beverage failed to achieve their deficit reduction targets in any given year, the shortfall would be made up from a mandated reduction in subsidies to the pertinent operations in the year following.

In view of how much is already funneled into the Golf Course and Greenview Restaurant, increasing the Community's subsidy beyond the current $825,000 is highly inadvisable. Ideally, the Greenview should make a profit, however small it may be, and the Golf Course should cap its loss to approximately $250,000/year, on par with what Lake Wildwood has already managed to do. If the Board does proceed with rebuilding the Hartmann Clubhouse without such financial prudence, one of two scenarios is likely: (1) the amenities/facilities unrelated to Golf will continue to deteriorate (along with HVLA services such as security and administration), or (2) the annual assessments will increase substantially (> 5%/year).

How can we be so sure? Do the Math.

HVLUnited......because it's **YOUR** money.

Important Note: The next HVLA Community Forum will be held on Saturday, August

17th, at 10 AM in the Community Center. Please attend and make your voice heard!

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