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Zero-Sum Game

August 9, 2013

Greetings!

Inequality of HVLA's resource distribution was a constant theme of Community feedback at the July 25th Workshop. One parent cited the absence of permanent toilets in the parks, another resident pleaded with the Board to do something about the deteriorating condition of our Lake, while a third mentioned the crowded tennis courts during peak season. The basic message could be boiled down to "Before investing \$millions in two buildings used by a small minority of the community, consider allocating substantially more funds to amenities and facilities utilized by vastly larger numbers." Unfortunately, this message doesn't appear to have fully registered with the Board (so far).

Being eternal optimists, we expand on this issue in the hope it will help transform the controversy swirling around the Community Center and Hartmann Clubhouse into a consensus-based march towards a goal our entire Community can applaud.

Before considering whether HVL residents can indeed make a strong case for resource redistribution, let's consider some numbers, both demographic and monetary.

Of our community's 5,600 residents, less than 500 (<10%) play golf. Perhaps half of these use our golf course frequently. What do these lucky few get in return for their HVLA assessment?

The price tag for maintaining the Golf Course and its operations, when all costs are factored in, is approximately \$1.3 million a year. Roughly 30,000 "rounds" of golf are played in any given year (a round is 18 holes of play). With these two numbers we can compute the (approximate) cost of golf in HVL - \$43 per round. The fee per round charged to residents ranges between \$14 and \$34 (depending on the day and time). Non-residents pay between \$19 and \$42 a round, but constitute a very small minority of players. To make up the financial shortfall, HVLA provides a "subsidy" (nearly \$600,000 in 2012; projected to rise to \$700,000 this year) to compensate for the Golfing operation's heavy losses. In effect, each round is subsidized (on average) to the tune of \$23 (\$700,000 divided by 30,000). For each round of golf paid for by the round, our Community subsidizes the cost between 20% and 75%. But wait, there's more. About half the rounds played are associated with Golf Course "memberships" (which range in cost between \$540 and \$3000 per year, with the most popular variety costing \$1400/year). A membership entitles the member to unlimited play. For these frequent golfers, the subsidy probably covers around 50% of the costs (when the discount on cart storage, gas and trail fees are taken into account). The more frequently these members avail themselves of HVLA's subsidy the more of a financial advantage gained.

The Greenview Restaurant and Mulligan's Bar are housed in the Hartmann Clubhouse (which also includes the Golf Pro shop) close to the Golf Course's driving range. Golfers are their most frequent patrons. The Greenview's food is unlikely to achieve culinary distinction judging from the reviews on Yelp (<http://www.yelp.com/biz/greenview-restaurant-hidden-valley-lake>). Since 2009, the Hartmann's food and beverage service has lost between \$114,000 and \$262,000 a year (for 2012, the figure was \$114,000; the projected loss for 2013 is approximately \$120,000), all of which is subsidized by our community.

Let's now compare this state of affairs with HVLA subsidies to other amenities/facilities in our Community. These include the Lake, Marina and three Beaches, Tennis Courts, as well as the Equestrian Center, Campground, Community Center, Pool, four Parks, and the Conestoga Trail, plus the costs for staging Community Events such as Concerts on the Green, Children's Arts, Crafts, Storytime Programs, Movie Night, the Teen Center, special Halloween events, and so on. HVLA provided subsidies of \$463,000 for the 30-odd activities and amenities, most of which are non-revenue-generating. Overall, Golf and Food & Beverage operations garnered [61% of the \\$1,176,000 HVLA subsidies to amenities and community events last year](#), as compared to only 39% for all other amenities combined.

Let's drill a little deeper into the numbers and consider the benefit such subsidies provide for a hypothetical resident of our fair Community. The Lake and Marina obtained an \$86,390 subsidy last year and the Parks/Fields (which include the Beaches and Trails) received an additional \$86,175 (for a total of \$172,565). If we assume that roughly half of HVL's 5,600 residents availed themselves of these popular amenities, the average subsidy amounted to \$62 per hypothetical resident - not a bad return for a relatively modest expenditure. If we compare this amount to the subsidy provided to a hypothetical golfer, an interesting story emerges. Some golfers use the HVL Golf Course a lot and some less so. For those who golf frequently, say 200 rounds a year, the effective subsidy amounts to \$4,600 on an annual basis (i.e., 200 x \$23). Less frequent use of the Golf Course still nets a considerable benefit - 100 rounds would equal \$2,300 of subsidy, 50 rounds \$1,150, and so on. Play 78 rounds of golf and you've made back your annual (\$1,800) assessment. Clearly, it pays to be a golfer if you live in Hidden Valley Lake.

In 2002, HVLA took out an \$800,000 loan to pay for repairs to the Golf Course irrigation system. This loan was paid back within a few years, but from our perspective could be considered a form of subsidy to the Golfing operations. When pondering the fate of the Hartmann Clubhouse, whose operations primarily benefit the golfing community, a similar calculus could be used. If the price tag for rebuilding the Hartmann were to (only) total \$5 million, the cost of servicing this debt (assuming a loan) would be \$600,000 a year, amounting to a nearly \$200 annual subsidy per property above and beyond the \$250 subsidy already provided. In effect, a quarter of each property owner's assessment would go towards subsidizing the Golfing and Food & Beverage operations (it would constitute an even greater percentage for the "unimproved" properties, a.k.a. empty lots). Regardless of how the construction is financed (entirely by loan, a combination of cash and loan), the amount of subsidy would remain essentially the same. Currently, several of the HVLA directors appear to favor a plan where the construction costs for the Hartmann would total \$6.5 to \$7 million, raising the prospective subsidy even more.

Clearly, something's askew in HVLA's distribution of subsidies. The only question is whether this unequal distribution is warranted or wise. To address this question it's worthwhile getting some perspective through examining what certain other Home Owner Associations (HOAs) in Northern California do with their funds.

Sun City - Roseville (<http://www.suncityroseville.org/>), set close to the Sierra foothills, contains 3,110 homes nestled on 1200 acres. It has two Golf Courses and many amenities, including a Lodge, Restaurant, Swimming Pool and Fitness Center. The annual assessment is \$1,776. However, the community is far wealthier than ours - most homes sell between \$300,000 and \$600,000, about double what an HVL house would cost. Another difference is the demographic profile - this community is designed for the 55-and-older set (in HVL, only 25% of the residents would qualify). Roseville's HOA has no debt, and its reserve fund is 100% funded - facts the community believes sufficiently important to place prominently on their web site.

Lake Wildwood (<http://www.lwwa.org/>), close to Grass Valley in the Sierra Foothills, is perhaps a closer match to Hidden Valley Lake (and is our "sister" Community). Its population is comparable to HVL's (5,000 versus 5,600), and is a "mixed" community spanning all ages. The average house price is \$287,000, about 50% higher than in HVL. Wildwood's amenities are similar to ours in number, but at a somewhat higher level of quality. Unlimited play at the Wildwood Golf Course is \$1,170 (compared to \$1,400 in HVL), and is entirely self-supporting (i.e., their HOA provides no subsidy). There are 25 clubs, ranging from Bocce to Motorcycles to Tennis, Theater, Technology and Art, as well as Golf and Tennis. In addition, there

are Nature Trails, a Community TV Station, a Basketball Court and several Parks. Last year, the assessment amounted to less than \$1,600.

The question thus arises, why are Roseville and Wildwood able to run communities with amenities superior to HVL's, in tandem with lower assessments and self-supporting golf operations?

"Zero-Sum Game" is a term coined by the mathematician John von Neumann to describe a situation where benefits to some result in losses to others. It would appear that the current allocation of financial resources in Hidden Valley Lake conform to this zero-sum calculus in which some experience considerable gain at the expense of many others. As unfortunate as this economic misdistribution may be, it may not be the most damaging form of resource misallocation. The diversion of attention and energy away from so many of the Community's amenities/facilities in favor of the Golf Course may be even more damaging than the monetary restrictions imposed.

In next week's communication, we'll consider a number of potential remedies to rectify this imbalance.

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