

— 2017 —

State of the City Report

CITY OF HOT SPRINGS, ARKANSAS



Presented to the Hot Springs Board of Directors
and the Citizens of Hot Springs

FEBRUARY 20, 2018

2017 State of the City Report

I am honored to present the annual State of the City Report to the citizens of Hot Springs, the Board of Directors, and the hardworking men and women employed by the city. The vision and guidance provided by the Board of Directors, along with the commitment of our employees to carry it out, and the engagement and support of our citizens, helped the city achieve remarkable results over the past year. 2017 saw several long-range plans move closer into focus, making the state of the city strong and vibrant!

As Hot Springs approaches its 170th birthday, the future looks brighter than ever. Hot Springs is proof that a city that does the right things, the right way for a long enough period, will transform itself to make the most of evolving opportunities. We continue to be the destination of choice for quality of life amenities that one rarely finds all in one place. The healing waters, outdoor recreation, a beautiful and vibrant downtown and numerous festivals and attractions make Hot Springs one of the best places in America in which to live, work and play. As our contribution, the city has remained focused on making progress on the two-year goals and priorities adopted by the board in early 2017.

Long-term projects

As we accomplish each goal, it's important to keep in mind that each is a piece of a larger puzzle that contributes to the success of Hot Springs. For example, the mountain bike trails under construction in the Northwoods will eventually be linked to the redevelopment of the Majestic site, which is inexorably linked to downtown shops, restaurants and lodging.

Similarly, the Lake Ouachita Water Storage Agreement, approved by the board last year, secures millions of gallons of fresh water supply for the community. This was the first reallocation of water supply from a project lake for the U.S. Army Corps of Engineers Vicksburg District and a major milestone for the future water supply for the City of Hot Springs. We are also making significant progress in securing water supply from DeGray Lake. Together, these two sources should provide adequate water supply

and viable economic development opportunities for the Hot Springs region for the next 50 to 60 years!

Another long-term project was the initiation of the city's \$4.9 million P25 digital radio communications network and dispatch center. The new system includes, among other features, eight new radio dispatch consoles and a logging recorder; state-of-the-art network design; nearly 100 percent handheld radio coverage, both in-vehicle and in critical buildings; and interoperability with all users of Arkansas Wireless Information Network (AWIN). The sound methodology used in the review process for this project, coupled with savvy vendor negotiations, resulted in a savings of nearly \$1 million below the estimated costs for the project. When complete, the city should have the best communications system in the state of Arkansas and the only dispatch center with both seismic and tornado compliant certifications.

Majestic site progress

The Majestic site is another important contribution by the city. The Comprehensive Site Assessment by ADEQ is an important step in the redevelopment process and clears the way for public input meetings that will help guide future use of the property. The property has limited remediation work to be accomplished by removing the existing fuel storage tank. Once complete, the site work calls for residential screening levels to allow for unrestricted development opportunities. The board took the important step of adopting four guiding values for the Majestic site, future development of which must: Enhance economic opportunities; improve the local quality of life and enhance the visitor experience; celebrate the natural wonder of our thermal water; and respect the arts, culture, and history of Hot Springs. When I first arrived in Hot Springs, I recall some critics of the city complaining that the city had plundered its resources in buying the Majestic. Yet, today the site is one of the most valuable pieces of real estate in Arkansas.

Northwoods

Similarly, the Northwoods Urban Wilderness Park continues to progress following the Board of Directors' adoption of the feasibility study that recommends

developing the city-owned property into a destination for outdoor recreation opportunities. Construction is currently underway on the first 16-mile segment of multi-use and mountain bike trails, which will provide Hot Springs with an important new tourism attraction aimed at mountain bikers and other outdoor enthusiasts. A partnership with the Walton Family Foundation and Visit Hot Springs has provided resources to move this exciting project forward. A planned 44.6-mile system of mountain biking trails will offer world class trails designed by the International Mountain Biking Association (IMBA) just minutes from the historic downtown business district.

Downtown development

Speaking of downtown, the downtown business district continues to experience tremendous development and investment. The momentum of downtown development fueled more than 30 property sales with a total value of more than \$9 million in 2017. Capital investment of more than \$23 million led to 41 new businesses opening in the past year. These statistics highlight the strong entrepreneurial spirit that exists within Hot Springs. Just one example is the city's newest pizza and brewery option named SQZBX (squeezebox), located at 236 Ouachita Avenue. The business was opened in late 2017 by Cheryl Roorda and Zac Smith, two well-known musicians in town and named SQZBX as a reference to the accordion used in their performances. Next door to their business is the studio for KUHS –FM 97.9, the state's only solar-powered community radio station, which opened in 2015. The project took advantage of Arkansas historic tax credits to rehabilitate the 1920 commercial building into KUHS studios and SQZBX Brewery and Pizza. Recently, they were honored by Preserve Arkansas for excellence in commercial preservation.

Operational improvements

While private sector creativity and investment is moving Hot Springs forward, the city is focused on operational improvements in virtually every department within city government. For example, the Water Division has made great strides in reducing the amount of unaccounted for water by locating and eliminating leaks and replacing

aging infrastructure. This resulted in decreased production costs even while experiencing an increase in overall consumption in 2017. In our utility billing system, customers can now track and monitor every aspect of their utility services through a new online portal. And, we are nearing the launch of a utility payment assistance program called H2O (Help To Others) for those in need in our community.

In another example, the Hot Springs Police Department initiated new proactive strategies and enhanced enforcement techniques that resulted in some measurable increases in several statistical categories in 2017. Warrants served increased by 34%, traffic citations increased by 17.5%, and arrests increased by 66%. All of this is a result of hard-working officers taking a proactive approach to crime and being diligent in their efforts to address criminal activities in our neighborhoods and throughout the community. The department will also continue doing sting operations targeted at drugs and other serious criminal activity.

Employee insurance plan improvements

Another example I'd like to highlight is the self-funded employee insurance plan. Last year the city completed a comprehensive overhaul of its entire health plan. Costs had escalated across the country and the city was nearly \$1 million in the red, struggling to keep pace with rising costs and claims. To tackle this challenge, the city formed an internal study group. After months of effort and dozens of meetings, both here and in Little Rock, the city adopted a new health plan, changed plan administrators, changed insurance carriers, and brought aboard new consultants. City employees began taking greater ownership of their health plan and became more responsible in how they use the services. I'd like to acknowledge several members of the Health Plan Study Group: Bill Burrough, Minnie Lenox, Brian Albright, Lance Spicer, Randy Fale, Dorethea Yates and Vicki Stauder. As a result of their work and the help of our employees, I'm proud to report that the city's health plan is now fully funded and that the year-over-year savings is more than \$1.5 million.

Economic indicators

The leading indicators for the local economy have continued to show steady growth throughout 2017. Visitors have long played an integral role in the Hot Springs economy. Visitor-based spending generated more than \$60 million in state and local tax revenues in the greater Hot Springs area, according to the Arkansas Department Parks and Tourism, which is up 5% from the previous year. The travel and tourism industry supports approximately 7,600 local jobs and contributed to the drop in the unemployment rate to 4.5%. Locally, the Advertising and Promotion tax posted a 4.6% increase above 2016 figures. This amounts to more than \$6 million in revenue collected within the City of Hot Springs, ranking Garland County as the second highest county in the state for tourism dollars.

The 114th season of live thoroughbred horse racing kicked off in January at Oaklawn Racing and Gaming, offering nearly \$30 million in prize money available this year. Racing is expected to draw approximately 3 million visitors to the newly expanded and updated facilities at Oaklawn. Revenue from the games of skill showed a 10.5% increase, bringing in approximately \$2 million to the city's public safety departments.

On the building and development front, new and existing residential unit sale values spiked 23% higher than the previous year, providing a 9% increase in number of units sold for the Garland County area. New residential building permits totaled 37 with a valuation of \$8.6 million across the city in 2017. Commercial building activity is trending upward, valued at more than \$38 million. Significant commercial work can be seen throughout the city, ranging from new educational facilities at the Arkansas School for Mathematics, Sciences, and the Arts to the Weyerhaeuser corporate office remodel, both located on Whittington Avenue. The combined value of just these two projects is estimated to exceed \$7 million. Also, in the downtown business district, a new residential and retail structure is being built at 502 Central Avenue. This will be the first new construction to take place within the Central Avenue Historic District in more than 40 years.

Other indicators include the city's transit bus system, with a 1.5% increase in ridership during 2016 and 2017, which is in contrast to the nationwide trend toward decreased ridership in public transit. This amounts to 11 riders per hour for both the fixed route and paratransit systems. Hot Springs Memorial Field also reported increased activity in both fuel sales and aircraft operations. Total aircraft operations (takeoffs and landings) increased by 1,000 in 2017 with fuel sales edging just past \$100,000. Both transit and airport statistics demonstrate a positive upward trend moving into 2018.

Another program worth mentioning is the Community Development Block Grant (CDBG) Program. This program serves as a catalyst for economic development activities that expand jobs and business opportunities for lower income families and neighborhoods in Hot Springs. As an entitlement community, Hot Springs receives an annual allocation of \$390,000, based on a CDBG funding formula. These funds provide much needed financial assistance for both public and private developments. Sidewalk improvements with ADA accessibility ramps and lighted crosswalks were completed on four city blocks through a \$66,000 investment, and CDBG funds also supported the construction of six new affordable houses by Habitat for Humanity. Bus shelters will be installed at the Hot Springs Housing Authority Mountainview Towers area to assist residents, particularly important to seniors or those with disabilities.

Now, on to the city's largest revenue source, sales tax collections. All indicators point to an encouraging and robust local and regional economy, although our sales tax returns were down 1% compared to 2016 figures. Building activity and visitor spending are all on the rise, along with various infrastructure improvements that should provide a boost to local sales tax collections. The city's 1.5% tax supports the majority of city services, including public safety, all of which directly impacts our citizens' daily lives. E-commerce companies have continually posted double-digit gains, reflecting the internet's increasing impact on the national, state, and local retail economy. To consider this in perspective, just one online retailer (named after a large river in South America) posted North American sales of \$21 billion, up 23% compared to 2016 figures, driving overall profits up 41% to \$724 million for the first quarter of 2017. During the 2017 Arkansas General Assembly, legislation was introduced that would have required an

online seller to collect sales tax. Although this legislation would later fail, some online retailers began collecting sales tax in the state in March 2017.

Why is this important to Hot Springs? The Hot Springs economy is heavily dependent on the success of its brick-and-mortar businesses. If they are unable to compete with online retailers, due to a lack of equity in tax collections, the city will be at a disadvantage. When the state's sales tax system was developed, e-commerce was not even imagined as a factor in tax policy. I am encouraged, however, that serious discussions about this issue are beginning to take root both in Little Rock and in our nation's capital. Until both federal and state governments decide to end the subsidy for online retailers, this matter will be of great importance to Hot Springs.

We must look at revenue diversification to protect city operations from over-reliance on sales tax. Regardless of the method of revenue enhancement the board ultimately chooses, the city must increase its general fund or find other revenue sources, if we are to adequately fund street repairs, public safety, and park services in a sustainable manner.

2018: Four areas of focus

I would next like to highlight the work that the city will be continuing throughout 2018. We will be focused on four areas of activity.

First, our water supply and water plant projects still require considerable planning and design, including bond sales, design work, easements and permitting for the intake, plant, water tower and transmission lines. Overall, this will be the largest single construction project in the history of the city, and it will require all of us working together to make it a success.

Second, the Majestic site redevelopment and the Parking Authority will move into the public input and planning processes. By engaging community stakeholders, we will bring our prosperous downtown to its full potential with the enthusiasm and creativity of our citizens. The Majestic site presents an opportunity that is truly transformative and will not present itself again in our lifetime. We must ensure that the

redevelopment flows through the board's guiding values for the site, but also ensure that this opportunity has plenty of public input, which will be accomplished over multiple input sessions with our partners Kansas State University and the University of Arkansas.

Third, parking has been an issue in the downtown for some time, and the rapid development we are experiencing will put additional pressure on our existing supply. That is why our approach will consist of thoughtful and careful outreach to manage the parking infrastructure by improving visibility and accessibility of these assets. My prediction is that, in less than ten years, the majority of vehicles sold in the United States will be equipped with self-driving technology. This reality will trigger dramatic and dynamic changes in urban planning and will make use of parking infrastructure vastly more efficient, reducing the demand for conventional parking infrastructure, while extending years of additional mobility to older Americans and others with special needs. For this reason, we will need to be especially thoughtful in the selection of technologies that may help improve parking in Hot Springs.

And finally, the continued construction of the Northwoods trails will help create an enormous economic engine for Hot Springs. By placing a world-class mountain biking facility in close proximity to our vibrant downtown, Hot Springs will offer amenities unmatched in other cities across the country.

Many cities have some fantastic mountain bike trails. Some have forested trails with mountainous terrain. Some have trails adjacent to water features, and some have trails near their downtowns. But few if any, have all of the above on 2,000 acres of public land, with design and construction by the IMBA, just a few blocks from their downtown and instant access to a National Park as does Hot Springs.

In conclusion, I am pleased to report the state of Hot Springs is strong and full of opportunity. Yes, we face challenges in funding for streets, parks, and emergency services. But working together, hand in hand with one another, and with our citizens, visitors and employees who love this community, we are going to have a wonderful 2018 in Hot Springs.

*David W. Frasher, City Manager
City of Hot Springs, Arkansas*



Copies of this report are available on the city manager's page of the city's website, www.cityhs.net, or in print format on request from the city manager's office.