

Ballot Measure

May 8, 2010

NOTICE OF SPECIAL MEETING OF MEMBERS OF HMC MANAGEMENT

To: Each of the Members of HMC Management

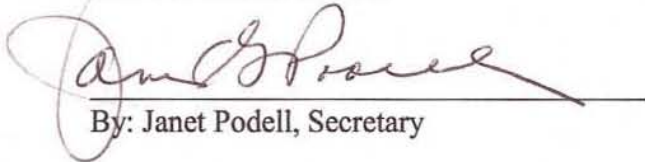
Pursuant to call by the HMC Management Board of Directors, you are hereby notified that a Special Meeting of the Members of HMC Management will be held at the Community Center on Herron Island, Lakebay, Washington on May 8, 2010, at 12:00 noon or as soon thereafter as such meeting may be held. The purpose of this special meeting is to affirmatively vote on the Ballot Issues identified on the information package accompanying this Notice.

A minimum of thirty-nine (39) valid Voting Ballots must be received from the HMC Membership to meet the quorum requirement for this meeting. For an individual Ballot Issue to pass, more than fifty percent (50%) of the votes cast on that Ballot Issue must be in favor of approving that Ballot Issue. Only HMC Members who are in good standing as of 10:00 a.m. on May 8, 2010 are entitled to Notice of this Meeting and entitled to vote at this Meeting by way of the Ballot accompanying this Notice.

All HMC Members are cordially invited to attend the Meeting.

Notice dated this 23rd day of March, 2010

HMC MANAGEMENT


By: Janet Podell, Secretary

HMC WATER SYSTEM BALLOT

March 2010

HMC Management has submitted a Small Water System Plan to the State of Washington, which has been approved by the Washington State Department of Health. Part of the plan addresses the need to upgrade our current water distribution system. There are several options associated with accomplishing this upgrade; these are two primary options:

- 1) HMC retains ownership and control of all Herron Island water system physical assets, including existing and future equipment, and retains full responsibility for construction, operation, upgrade, maintenance and repair of the water system, for maintaining and controlling costs and billing, and for acquiring financing and taking such other actions as are needed to fulfill these obligations; or
- 2) HMC transfers ownership and control of all Herron Island water system physical assets, including existing and future equipment, to a public or private utility, and gives that utility full responsibility for construction, operation, upgrade, maintenance and repair of the water system, for maintaining and controlling costs and billing, and for providing financing and taking such other actions as are needed to fulfill these obligations.

The HMC Board of Directors and the Water Project Committee believe there should be more definitive information developed before this choice of alternatives is presented to the HMC Membership. There is unanimous agreement, however, that we must proceed in a timely manner. That is why the Board presents the first ballot issue here, seeking approval from all Members to move ahead with the water system upgrade. Our water system is over 50 years old, needs frequent repair, lacks sufficient fire hydrants and water flow, likely contains unknown leaks, causes concerns about contamination when leaks occur, and does not meet upcoming State water system standards. We should not wait until the State forces replacement or the current system fails requiring emergency construction, outages, and increased costs. This is why the HMC Board recommends moving ahead now to replace and upgrade the water distribution system and seeks general approval to pursue this significant improvement.

A major issue facing all Members is how the significant costs of the water system upgrade would be financed. The new system is estimated to cost between \$2-3 million, or about \$5,000 to \$7,500 per assessable unit; development and construction of the new system would be financed through a loan to HMC and paid for over a period of up to 40 years. To permit evaluation of our financing options, the second ballot issue addresses Membership approval to initiate the loan application process with the USDA (U.S. Department of Agriculture) Rural Development (USRD). As a result of Federal Government programs to stimulate the economy, the USDA has more loans and grants available to rural water systems to improve the infrastructure. These programs require timely commitment of funds in order to take advantage of low interest rates and extended repayment terms. Our Island Manager has submitted an initial application and been told that we could currently qualify for a 40 year loan at 3.25%. The maximum interest rate has been 4.25%, and rates could increase in the future.

This loan would cover all the design and construction costs for the water system and is significantly less costly than any commercial loan we could obtain. The loan would result in

a lien against the HMC water system (not against individual Member parcels) and would be repaid by HMC over 40 years from funding raised through the current assessment process. The loan interest rate is lower and the loan term is longer than that available for larger investor-owned utilities, so the overall cost recovery should be significantly lower with this USDA loan. Further, there is a possibility that some of the capital costs may be covered by a grant or grants rather than a loan, which would further reduce our payments over the 40 years life of the loan.

In order to proceed and get firm approval of the loan from USDA, and to take advantage of the current loan terms being offered, we need to provide the USDA with an engineering design, construction bid documents, and required regulatory documents. Your HMC Board recommends we use existing water system reserve funds to contract for these needed tasks and, because these costs are expected to exceed \$10,000, seeks Membership approval by this ballot measure. This ballot measure would not obligate HMC to accept the USDA loan or any other particular loan and/or grant, nor would it restrict the rights of Members to choose between retaining ownership or transferring ownership to another investor-owned utility. That decision will come later and will be the subject of a separate Membership vote.

If the Membership votes later to transfer ownership, the documentation (design, regulatory documents, etc.) being funded by your vote today may be used by another utility, and thereby reduce some of their capital costs, a savings that could be passed on to HMC Members. Should the Membership vote to retain ownership of the water system and approve the loan, these initial costs would be rolled into the loan over the 40-year repayment period and the reserve account would be replenished. Because of the potential for a significant costs savings to Members if this loan can be obtained, the HMC Board highly recommends your approval by way of a YES vote. If we do not proceed now, the opportunity will be lost for financing on such favorable terms.

The third ballot issue concerns our Articles of Incorporation. The original Articles of Incorporation contained a section on the authority of the then Herron Maintenance Company to own and operate a water system, among other powers. When the Articles of Incorporation were amended in 2004, the section that expressly authorized what is now HMC Management to own and operate a water system was taken out. To correct this omission, to authorize our current operation and maintenance of the water system, to satisfy required elements for the USDA loan, and to more specifically enumerate the historic powers of HMC Management, the HMC Board requests that the Members vote to amend our Articles of Incorporation to enumerate those powers, including specific language permitting HMC Management to own and operate a water system. The Ballot itself describes this proposed Amendment in more detail, and incorporates the specific provisions set forth on an Appendix A, which is included with this package. It is implied in the section authorizing HMC to provide and maintain assets for the health and well being of its Members, but the existing language is not as specific as the original. The HMC Board again urges your YES vote on this Amendment.

OFFICIAL BALLOT AND VOTING INSTRUCTIONS

1. Vote YES to accept the proposals set forth on the other side. Vote NO to reject them.
2. Insert your Ballot in the envelope marked "Official Ballot" and seal the envelope. Do not put your name on this envelope. Do not place anything other than one Ballot in this envelope.
3. Place the small envelope marked "Official Ballot" in the large envelope. **You must sign the large envelope and make sure that your name and address appear on the large envelope. *If your name and signature do not appear on the outside of the large envelope, your vote will not be counted.***
4. To be considered a Member in good standing and have your vote counted, all delinquent charges and assessments must be paid in full before the Ballots are counted.
5. Please make sure that your name is legible on the outside of the large envelope. If your name cannot be read, the Ballot will not be counted.
6. Your Ballot must be received in the HMC Office by 10:00 AM, Saturday, May 8th, 2010 to be counted. If you prefer to vote in person, please attend the May 8 meeting of the HMC Board. The Ballots will be counted at that time.

BALLOT ISSUE NO. 1

SHALL HMC MANAGEMENT REPLACE THE CURRENT ISLAND WATER DISTRIBUTION SYSTEM, TO INCLUDE THE ADDITION OF FIRE HYDRANTS AND TO OTHERWISE MEET STATE WATER REGULATIONS?

☐ YES

☐ NO

BALLOT ISSUE NO. 2

SHALL HMC MANAGEMENT USE EXISTING RESERVE FUNDS TO DEVELOP ENGINEERING PLANS AND OTHER SUPPORTING DOCUMENTS TO PERMIT TIMELY APPLICATION FOR A FEDERAL RURAL DEVELOPMENT "COMMUNITY FACILITIES" LOAN IN AN AMOUNT SUFFICIENT TO CONSTRUCT THE REPLACEMENT WATER SYSTEM?

☐ YES

☐ NO

BALLOT ISSUE NO. 3

SHALL HMC MANAGEMENT AMEND THE ARTICLES OF INCORPORATION TO REINCORPORATE SPECIFIC PURPOSES AND POWERS AS FOLLOWS:

The following paragraph shall be inserted under Article III – Purposes as a new Paragraph A.5 :

“To the extent permitted by law, to promote and give effect to the purposes stated in Article II of the original Articles of Incorporation dated April 30, 1958 as they are recited on Appendix A attached hereto.”

A new APPENDIX A shall be appended to the Articles in the form attached hereto.

☐ YES

☐ NO

APPENDIX A

1. To purchase or otherwise acquire, construct, improve, develop, repair, maintain, operate, care for and/or dispose of parkways, playgrounds, open spaces and recreational areas, tennis courts, beaches, boat landings, floats, piers, clubhouses, swimming pools, and/or swimming areas, bathhouses, places of amusement, community buildings, community clubhouses, and in general community facilities appropriate for the use and benefit of its members, and/or for the improvement and development of the property hereinafter referred to.
2. To build, improve and maintain roadways, culverts, bridges and drainage areas, and to provide for the improving, cleaning and sprinkling of streets, and for collection and disposal of the street sweepings, garbage, ashes, rubbish and the like; to prevent and suppress fires, to provide police protection, and to make and collect charges to cover the costs and expenses therefor.
3. To improve, light, and/or maintain streets, roads, alleys, courts, walks, gateways, fences, and ornamental features now existing or hereafter to be erected or created, and shelters, comfort stations, and/or buildings and improvements ordinarily appurtenant to any of the foregoing; to improve, plant and maintain grass plots and other areas, trees and plantings within the lines of the streets immediately adjoining or within the property hereinafter described or referred to.
4. To care for any lots and plots in said property, to kill, destroy and/or remove from any said lots and plots grass, weeds, rodents, predatory animals, and any unsightly or obnoxious thing; and to take any action with reference to such lots and plots as may be necessary or desirable in the opinion of the Board of Directors of said corporation, to keep the property clean and in good order; to make and collect charges therefor.
5. So far as it can legally do so, to grant franchises, rights of way and easements for public utilities or other purposes upon, over and/or under any of said property.
6. To acquire by gift, purchase, lease or otherwise, and to own, hold, enjoy, operate, maintain, and to convey, sell, lease, transfer, mortgage and otherwise encumber, dedicate for public use and/or otherwise dispose of, real and/or personal property wherever situate.
7. To keep records of building permits and/or other approvals or disapprovals made or issued by said corporation; to keep books and records showing all charges, levies, and assessments made; to furnish certified copies of any record which the Board of Directors may authorize to be furnished; to issue certificates of completion and compliance covering respective parcels of property upon which buildings, structures and/or other improvements have been erected or made, all as provided in the restrictions, conditions and covenants affecting said property or portions thereof, and to make and collect charges covering the cost and expense of such acts.
8. To enforce liens, charges, restrictions, conditions and covenants existing upon and/or created for the benefit of parcels of real property over which said corporation has jurisdiction and to which said parcels may be subject to the extent that said corporation has the legal right to enforce the same, and to pay all expenses incidental thereto; and the jurisdiction of said corporation to the extent that it is authorized in aid restrictions and conditions, and covenants to enforce same and to pay the expenses in connection therewith.
9. To pay the taxes and assessments which may be levied by any public authority upon any of the said property now or hereafter used or set apart for parks, parkways, playgrounds, open areas, tennis courts, beaches, boat landings, community club houses, community club buildings, places of amusement and/or recreation areas, or upon such other recreation spaces wherever situate, as may be maintained for the general benefit and use of the owners of lots in said property; to pay taxes and assessments levied by any public authority upon improvements upon any of said property or areas so used or set apart or maintained, and whether taxed or assessed as a part of said property or areas or separately; and to pay taxes and assessments levied by any public authority upon any property which may be held in trust for said corporation.
10. To exercise such powers of control, interpretation, construction, consent, decision, determination, modification, amendment, cancellation, annulment, and/or enforcement of covenants, reservations, restrictions, liens and charges imposed upon said property, and as may be vested in, delegated to, or

APPENDIX A

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assigned to said corporation and such duties with respect thereto as may be assigned to and assumed by said corporation.

11. To approve and/or disapprove, as provided by restrictions, conditions and covenants affecting said property, plans and specifications for and/or location of fences, walls, poles, buildings and/or structures to be erected or maintained upon said property or any portion thereof; to approve or disapprove the kind, shape, height, and material for same and/or the plan indicating the location thereof or their respective building sites and such grading plans as may be required, and to issue permits for the same; to pay any and all expenses and charges in connection with the performance of any of said powers or the carrying out of any said purposes; to supervise construction of any buildings or structures to the extent deemed necessary by the Board of Directors, and to establish rules therefor.

12. To regulate and/or prohibit the erection, posting, pasting or displaying upon any of said property billboards and/or signs of all kinds and character; and to remove and/or destroy any such billboards and signs erected or maintained upon said property without the authority of said corporation as provided in such restrictions, conditions and covenants, as may affect said property or any portion thereof.

13. To appropriate, purchase, divert, acquire and store water from streams, water courses, wells or any other source, and to distribute the water so appropriated and acquired to its members for use upon the lands of said members and for domestic purposes; to acquire, own, construct, hold, possess, use and maintain such pumping plants, tanks, pipe lines, reservoir, ditches, buildings, roads, trails and appliances, and such other property, including water rights and stock of other corporations as said corporation may from time to time desire to acquire or purchase for furnishing and supplying water to its members; provided that this corporation shall not use or dispose of such water as a public utility, but solely for the use and benefit of its members and for the irrigation of lands and domestic and other useful and beneficial purposes.

14. To fix, establish, levy, and collect annually such charges and/or assessments as may be necessary, in the judgment of the Board of Directors to carry out any or all of the purposes for which this corporation is formed, but not in excess of the maximum from time to time fixed by the Bylaws.

15. To expend the moneys collected by said corporation from assessments and charges and other sums received for the payment and discharge of costs, expenses, and obligations incurred by said corporation in carrying out any or all the purposes for which said corporation is formed.

16. Generally, to do any and all lawful things which may be advisable, proper, authorized and/or permitted to be done by said corporation under or by virtue of any restrictions, conditions, and/or covenants or laws affecting said property or any portion thereof (including areas now or hereafter dedicated to public use); and to do and perform any and all acts of the foregoing powers or for the peace, health, comfort, safety, and/or general welfare of owners of said property, or portions thereof, or residents thereon.

17. To borrow money and mortgage, pledge or hypothecate any or all of the real or personal property of said corporation as security for money borrowed or debts incurred; and to do any and all things that a corporation organized under said laws of the State of Washington may lawfully do when operating for the benefit of its members or the property of its members, and without profit to said corporation.

18. Generally, to do and perform any and all acts which may be either necessary or proper for or incidental to the exercise of any of the foregoing powers and such powers granted by the provisions of Title 24, Revised Code of Washington and other laws of the State of Washington relating to non-profit corporations.

19. Nothing contained in these Articles of Incorporation shall be construed as authorizing or permitting said corporation to own, manage or operate a real or personal property for profit. It is the intention and purpose that the business of said corporation shall not be carried on for profit either to itself or for the benefit of its members, and wherever it is authorized to collect charges or assessments it shall have no power or authority to use said charges or assessments except as necessary to cover the actual cost or expense of the act, duty, power or transaction performed.

20. To have one or more offices at such place or places, either within or without the State of Washington as the Board of Directors may from time to time determine or the business of the corporation require.

APPENDIX A

Supplemental Voting Information

May 8, 2010



HMC Management

SUPPLEMENTAL VOTING INFORMATION

Based on discussions at the April 10th Community Meeting, it was noted that some additional information about the ballot issues may be appropriate. Your HMC Board is providing the following information to supplement and clarify the information that has been provided to date.

BALLOT ISSUE NO. 2:

This ballot measure asks to expend money from our water reserves to complete certain environmental assessment prerequisites for a USDA/RD loan application, and to do a cost engineering review of our Water Systems Plan to potentially reduce our ultimate costs. At this point, we anticipate that we will need to spend roughly \$15,000 as follows:

Cultural / Archaeological Survey and Evaluation - \$8,400

Preliminary Engineering Plan Review and Environmental Assessment - \$6,000

Bruce Whittle, USDA, and two engineering firms confirmed that the above listed prerequisites will need to be completed even if HMC does not accept the USDA loan.

As of December 31, 2009, we have \$51,923.74 in our water reserves. As such, we do not expect to deplete our existing water reserves as a result of this vote. Only the minimum necessary would be spent out of existing reserves to keep the USDA financing option open for HMC Members by preparing for loan approval.

BALLOT ISSUE NO. 3:

The need to amend our Articles of Incorporation came about as a result of a need for clarity in the USDA application process - the wording of our current Articles is really very broad with respect to the authority of our association. A more specific statement of our authority to own, operate and maintain the water system is required to meet the USDA/RD loan application standards. Approval of this Ballot Issue would specify just what it is that we, as an island community, are permitted to do, including operating our own water system (as we do now). The primary reason for raising this Ballot Issue is to keep the USDA financing option open; it does not change in any way the functions and powers of HMC Management from what they are today.

A Yes vote is needed on both of these Ballot Issues to keep the USDA funding option available to the Members. We expect to soon present the Members with another ballot by which the Members will be voting for their choice of actual approach to the system upgrade and whether to retain or transfer ownership.

More information about the water project can be found on the HMC website at www.herronisland.org under "Island News" and through the HMC Island Manager at HMCManager@herronisland.org.

CHANGING YOUR MIND?

For those of you who have already voted and returned your ballots, but now for any reason wish to revoke that ballot or substitute another, please refer to the HMC Bylaws, which provide as follows:

4.9.3 Revocation of Ballots. Subject to any applicable provisions of law, any Owner or other person entitled to cast a ballot, may revoke the ballot, or substitute another, by a writing received by the Association prior to the time specified in the solicitation for the counting of ballots, but may not do so after that time unless that time has been extended as provided in the following paragraph. A revocation is effective upon receipt by the Association at the address specified for return of the ballots.

If anyone wishes to substitute their ballot, please allow sufficient time after giving the required written notice for the HMC Office to send you a replacement ballot so you can return the new ballot in time to arrive at the HMC Office no later than May 8, 2010 at 12:00 p.m. Written notice of substitution or revocation will only be accepted by one of the following methods:

E-mail (office@herronisland.org);

Fax to (253) 884-5047;

Postal mail to HMC Management, PO Box 119, Lakebay, WA 98349; or

Direct delivery to the HMC Office – for this method to be effective, the notice must be delivered directly to an HMC Staff.

Upon receipt of a valid notice of substitution or revocation from a Member, HMC Staff will void any ballot that has already been received from that Member. Upon receipt of a valid notice of substitution from a Member, HMC Staff will mail or otherwise a new ballot to the Member. In any event, no more than one ballot per Member will be accepted for the vote.

Reminder: In order for your vote to be valid and counted on May 8th, the outside of the mailing envelope must be signed. Please remember to sign your envelope!

Ballot Results

May 8, 2010

SPECIAL MEMBERSHIP MEETING

Water System Upgrade May 8, 2010

Call to Order: Fred Fath called the meeting to order at 12:00 PM.

Roll Call: Fred Fath, President/Treasurer, Kathryn Deuster, Vice President, Janet Podell, Secretary; Judy Grienke, Asst. Treasurer, Mark Anderson, Member at Large, Claudia Ellsworth, Island Manager

Ballots:

Ballots before the membership:

- **Ballot No. 1:**

SHALL HMC MANAGEMENT REPLACE AND UPGRADE THE CURRENT ISLAND WATER DISTRIBUTION SYSTEM, TO INCLUDE THE ADDITION OF FIRE HYDRANTS AND TO OTHERWISE MEET STATE WATER REGULATIONS?

- **Ballot No 2:**

SHALL HMC MANAGEMENT USE EXISTING RESERVE FUNDS TO DEVELOP ENGINEERING PLANS AND OTHER SUPPORTING DOCUMENTS TO PERMIT TIMELY APPLICATION FOR A FEDERAL RURAL DEVELOPMENT "COMMUNITY FACILITIES" LOAN IN AN AMOUNT SUFFICIENT TO CONSTRUCT THE REPLACEMENT WATER SYSTEM AND UPGRADES?

- **Ballot No. 3:**

SHALL HMC MANAGEMENT AMEND THE ARTICLES OF INCORPORATION TO REINCORPORATE SPECIFIC PURPOSES AND POWERS AS FOLLOWS:

The following paragraph shall be inserted under Article III – Purposes as a new Paragraph A.5 :

"To the extent permitted by law, to promote and give effect to the purposes stated in Article II of the original Articles of Incorporation dated April 30, 1958 as they are recited on Appendix A attached hereto.". A new APPENDIX A shall be appended to the Articles in the form attached hereto.

Ballot Counting Committee:

Allen Moren
Paula Trent
Linda Moren
Pat Francis
Gary Wanzong
Dana Gruber
Jean Mellor
Bill Hagen
Gayle Herman
Lyle Herman

Ballot Results:

In order to ensure the integrity of the ballot counting process Carolyn Snyder (HMC Office Manager) requested the assistance of two random members to validate the total ballot count and the final vote tally. Tracy Anspach and Gary Wanzong volunteered to provide that assistance. The final validated vote tally was as follows:

	<u>Yes</u>	<u>No</u>	<u>Pass/Fail</u>
Ballot No. 1	227	29	Pass
Ballot No. 2	145	109	Pass
Ballot No. 3	140	113	Pass

It was noted that the total number of votes cast was 253, but that sum of the "Yes" and "No" votes on Ballot Issue No. 1 was 256 and the sum of the "Yes" and "No" votes on Ballot Issue No. 2 was 254. This can happen because members sometimes choose not to vote on one or more ballots; but just the ones they feel strongest about. The vote tallies were verified by a team of two members following the original count and are accurate as shown.

Adjournment: Judy Greinke made a motion to adjourn this meeting. **Motion carried.**

Respectfully submitted,

Janet Podell
Secretary