

SUMMARY OF BALLOT PROPOSITION NO. 2 REGARDING FINANCES

Over the many years the HMC policy was to keep the association dues as low as possible. As a result, HMC has not funded reserve accounts to replace major assets. This policy pushed the depreciation expense of our assets into future years and those future years are very quickly approaching.

We all know what depreciation is, but the following is a practical example. You purchase a new car for \$20,000 (cash), and every year you do the maintenance and upkeep faithfully. You change oil, put gas in, put on new tires and wash/polish the car. After ten years, the car is starting to run poorly, the transmission is not shifting properly, the steering wheel has lots of play and the brakes don't work so great anymore. You take the car in and ask how much to fix all the stuff that is wrong. The mechanic tells you the car is worn out, it needs \$30,000 worth of repairs and you would be better off purchasing a new one, because the price of cars has not gone up that much. So how much did this car cost you? Let's say you spent \$3,000 a year for maintenance, fuel and insurance. So over 10 years you spent \$30,000 (10 x \$3,000) to operate the car. This would be your out-of-pocket costs. But there is the hidden cost called depreciation. This cost is \$20,000 divided by 10 years, or \$2,000 per year. This is the cost of replacing the car. So your total costs would be \$3,000 (out of pocket) plus \$2,000 (depreciation) for a total of \$5,000 per year to operate the car. If you had put the depreciation cost (\$2,000 per year) into a savings account, you would have the \$20,000 after ten years to replace the car.

HMC has not put away money to replace our major assets. Or, to say it another way, we have not funded depreciation. So instead of paying the true or actual cost of using our assets, we have been paying only the out-of-pocket expenses, maintenance and upkeep. Now that some of our major assets are or are becoming worn out, we need to replace them. This is what occurred with the water system; we only paid for repairs and some maintenance, but never replacement. The Finance Committee has used two different reports from recent inspections and also looked at the records on the ferry docks, ferry ramps and small dock piles. From these reports and maintenance records, a timeline was created extending out through the year 2031. It became evident is that there will be a lack of reserves in 2013, 2020 and 2022 to pay for major repairs and replacement. The Finance Committee would like your input on how you want to pay for the+ necessary repairs/replacement of our ferry system. It should be noted that the timeline may shift by a couple of years, but the reality is that the work is going to have to be done and it would be best to plan on how we want to pay for it now. This allows us the flexibility to get the best pricing, try for government grants, and schedule this work before it becomes an emergency issue. We all know what happens during an emergency. Just like your home furnace dying in January creates the opportunity for contractors to make the most money, HMC also would pay a premium price if we had emergency repairs/replacement.

There are three options to look at. These options are not the complete list of possibilities but they represent three concepts with realistic prices, in today's dollars with a realistic timeline on when things need to happen. The three options range from fully funding reserve accounts to using only special assessments, and a third being a combination of both. Here is the summary of each option.

1. Three Special Assessments and a Slight Increase to Reserve Account Plan:
 - Three special assessments occurring in:
 - a. 2012 in the amount of \$600 for each assessable unit.
 - b. 2013 in the amount of \$325 for each assessable unit.
 - c. 2020 in the amount of \$1,955 for each assessable unit.
 - Increase in reserves in the amount of \$25.90 per assessable unit per year starting in fiscal year 2012. The reason for this increase is to get the reserve accounts to fully pay for basic maintenance and inspections.
 - All numbers are estimates and do not allow for inflation.
2. Combination of Three Special Assessments and Annual Increase to Reserve Account Plan:
 - Three special assessments occurring in:
 - a. 2012 in the amount of \$155 for each assessable unit.
 - b. 2013 in the amount of \$545 for each assessable unit.
 - c. 2020 in the amount of \$925 for each assessable unit.
 - Increase in reserves in the amount of \$154 per year per assessable unit starting in fiscal year 2012.
 - All numbers are estimates and do not allow for inflation.
3. One Special Assessment and Increase to Reserve Account Plan:
 - One Special Assessment is needed in fiscal year 2012 to pay for the ramp painting. Estimated cost per assessable unit is \$300.
 - Fully funded reserves will start in fiscal year 2012. Estimated cost is a \$300 increase per assessable unit in yearly assessments to reserves.
 - All numbers are estimates and do not allow for inflation.

As you can see there is no easy way to say that we now have to pay for fixing our infrastructure. For too many years we have been subsidizing our actual operating costs by deferring maintenance and repairs, and not saving to replace what we have when it wears out. The Finance Committee needs your input on how we as a community want to deal with this issue. Your decisions will impact budgets for years to come so please look at the spreadsheets, ask questions and make an informed decision. The longer we postpone these hard decisions and hope the problem goes away the more it will cost everyone. We have time to fix the problem now so let's make a decision, have a plan, know what is coming and move forward. Please remember all the data is our best estimate based on engineering reports and past repair bills. The dollars may go up or they may go down. The numbers do not take into account inflation, other costs, or our volunteers pitching in on projects to help lower the costs. If you want to see the engineering reports please check on line at www.herronisland.org or contact the HMC Office to get a copy.