

Finance Committee Meeting June 25, 2011 Community Center 9:30 am

Members Present: Gary Wanzong, Terrill Chilson, Kathy Deuster, Rondi Amidon, Carole Crowley, Judy Greinke Member Absent: Fred Fath Guest: Pat Zazzo

All members had a copy of the Trip Ticket Plan Draft as it appears on the HMC Website and discussed possible changes and reviewed questions about the content of this plan. This plan will affect the senior population the most with a raise in ferry fees, all other members get a reduction. In 2010 there were 65 senior members who took advantage of the present 25% discount. The option to purchase a book of ten tickets rather than twenty will be an advantage for seniors who are on a fixed monthly income. We want to have a plan that is fair as possible to all HMC members. Judy will put together a Financial Information Sheet to add to the plan description on line. (Attached)

The North Beach Piling replacement was discussed. Information shared:

- Our Bylaws say we must maintain, repair or replace all HMC assets. There is no priority written in our bylaws that sets one asset as more important than another.
- No replacement reserves have been funded in the past, only maintenance reserves.
- In 2008 the Board became aware of replacement needs for our ferry dolphins and North Beach pilings. Four year replacement reserves were started with a goal of \$500,000 at \$81,750 annually.
- A task force of members including 3 marine specialists worked for months and came up with a recommendation to the Board. The committee agreed that HMC needed an engineer life-span evaluation of all docks and dolphins. The RFP was written, published and sent to qualified firms, and KPFF was chosen by a committee of members to complete the task.
- KPFF reported the estimated life span of Dolphins to be at 10 – 15 years, the most deteriorated small boat dock pilings 0 – 2 years, and remaining pilings 5 – 7 years.
- A mitigation plan to replace the North Beach pilings needed to be established or our HMC liability insurance would very likely not cover any accident on the small docks and the docks would be removed to protect the membership from liability. All potential liabilities need to be disclosed to maintain insurance coverage.
- The US Army Corps of Engineers is updating their nationwide Permit Program in 2012 with more stringent regulations.
- To avoid more expensive permit regulations in the future and lack of insurance coverage in 2012, a ballot was sent to membership to replace the small boat dock pilings. Members voted approval of this ballot.
- The most cost effective option is to remove all 29 pilings and replace them with 16 steel pilings at an estimated cost of \$250,000. This provides a 50 year life expectancy and no immediate replacement reserve contributions needed for North Beach Pilings.

The suggestion was made to replace only the most severely deteriorated pilings to save money. This would mean replacing the 10 KPFF identified pilings with 8 steel pilings at an estimated cost of \$123,000.

Advantages: Less cash outlay at this time.

Shorter construction period

Disadvantages: Continued deterioration of the remaining 19 pilings.

Engineered expected life span is 5 to 7 years.

No estimate of construction costs in 5 – 7 years.

HDFW Hydraulic Project Approval expires in 2013 – would need to be redone.

Shoreline Exemption will expire in 2016- would need a new application to see if we qualify.

Estimate of additional costs for this second phase option is \$194,000.

If KPFF estimate of costs are still the same as today, funding reserves for the second phase at about \$42,000 per year (or at an additional \$106 each year per assessable unit) would need to start in the next 2011/2013 budget year.

Total cost for two-phase replacement of all North Beach pilings will be much higher.

The next order of business was to look at a financial picture of all future HMC major expenses for the next 20 years. Financial cycles seem to come around every 50 years which shows we are right on target with this analysis for our 53 years established as Herron Island. Gary Wanzong gave all members a copy of the KPFF Marine Structures report and the Sargent Ferry Terminal inspection. Both reports were completed in 2010 and is the basis for our analysis.

Gary presented a graph showing the percentage breakdown for each department of our present 2011/2012 budget. Next, we identified five major repair/replacement expenses needed in the future plus mandatory inspection costs; Small Boat Dock Pilings, Cable Replacements, Ramp Painting, Ferry Dolphins, and Ferry Engine Replacement

Gary explained the information that was included in his different spreadsheets which shows our present financial position, five major repair/replacement items and their costs and a variety of payment options. Terrill Chilson presented an additional spreadsheet showing another payment option. The committee discussed continuing with our present reserve contributions, increasing reserves, using only special assessments, or using a combination of special assessments and reserves to fund replacement and maintenance costs in the future. A sample using the best of Gary and Terrill's recommendations is attached. This spreadsheet uses both special assessments and reserves for major expenses in the future.

FINANCE COMMITTEE RECOMMENDATIONS :

HMC keep a reserve balance no lower than \$30,000 and not higher than \$500,000.

HMC send another ballot to membership:

Approval of New Trip Ticket Plan

Approval to use a combination of reserves and special assessments as a financial guideline for future planning.

(The attached spreadsheet is an example of one option. Actual dollar amounts will vary over time. All future expenditures must be voted on and approved by the HMC Membership before it goes into effect.)

Note: I have added a more extensive explanation to some of our discussion points for clarification. If corrections or more clarification is needed, please let me know.

Judy Greinke – HMC Treasurer