



HMC MANAGEMENT

Water System Replacement/Upgrade Recent Developments Updated as of March 26, 2010

Ballots asking for votes on three issues were mailed out earlier this week, and as members continue to ask questions, we will keep on doing our best to provide answers. Here is the latest update, below:

Q: I'm confused by Question #3? What is the Board trying to do?

- A. When the Articles of Incorporation were amended in 2004, language relating to the powers of the Association were changed. Specific language as to what HMC could do was taken out, and one very broad "powers" clause was substituted. The USDA attorneys stated that the current language did not specifically say that HMC could own and operate a water system. This amendment reinstates the more specific language of the original Articles of Incorporation.

This is the kind of statement of authority that any lender, or purchaser, of the system would be looking for...if HMC doesn't have authority to OWN and OPERATE, how could HMC transfer that authority to another entity?

(HMC is not a "water utility" and has no power to sell water to other than HMC members.)

Q. Do we have to have "bid-ready" construction documents before we get a loan commitment from USDA?

- A. No. We clarified this on March 24th with USDA, Bruce Whittle. "Bid documents are usually prepared after loan commitment. Since you only have a preliminary engineering report (the Water System Plan) and final design comes after loan commitment, you cannot provide bid documents until final design."

Q. If we spend money now on environmental and other paperwork, would this work be wasted if the system were transferred to an investor-owned utility?

- A. No. Requirements in State and federal law would still apply. Replacing and upgrading the water system is not a discretionary action....it will have to be done, and has been discussed for decades. Loan circumstances are more favorable than they have ever been. Delay might mean a catastrophic failure of the system, or a mandate from a federal or state agency which would give members little choice as to financing or timing.

Q. Do we really have to spend money now and do some work, before we get the loan commitment?

- A. Yes. There is some preliminary work associated with applying. These expenses, however, can become part of the 40-year loan, and the reserve replenished. Although we do not have "a number" for the preliminary work, it should fall well within the current reserve funds set aside for water system improvement. The work to be done entails responding to environmental requirements, such as a cultural and archaeological survey required by the State Department of Historic Preservation, and an assessment of coastal zone impacts (there shouldn't be any). We are attempting to do as much work in house as possible, to save members' money.

A best estimate right now might mean that we spend \$25,000 on the preliminary work, refining our system design and filing the necessary environmental reports. Northwest Water Systems offered in December to do some pre-commitment engineering review and assist with environmental assessment for \$6,000, and we know that we need cultural/archaeological consulting at \$8,400. There could be some other specialist assistance we might need, as well.