



HMC Management

February 11, 2013

Dear Members:

As you all know, construction on our Water System is completed. To finance the construction, HMC secured an interim loan from KeyBank and has been making interest-only payments for the capital costs of the construction. Now that construction is complete, we need to pay off this loan. To do so, HMC is imposing a Special Assessment, in accordance with Section 9.5 of the 2005 Second Amended and Restated Bylaws of HMC Management and the Herron Island Water Department Financial Policy. Members may pay for their share of the Special Assessment through a one-time payment or by payments over time, as discussed in the attached materials.

One-time payments must be actually received by the HMC Office no later than Thursday, March 7, 2013. This payment window will be your only opportunity to make a one-time payment. This is the payment window that has been discussed numerous times in the Beachcomber and in other correspondence to the Members. HMC has established this deadline so that HMC can accurately determine the amount it must borrow from the USDA and pay off the interim loan. And because of the short turnaround time for closing the USDA loan, to ensure that HMC Members do not incur any additional interest charges on the interim loan, Members making a one-time payment must do so using a cashier's check. If you do not make the one-time payment in full by this date and on the other terms set forth in the materials below, you will be automatically deemed to have elected to make payments over time.

If you have any questions regarding these options, please direct them to the Island Manager as soon as possible at (253) 884-9350 or at hmcmanager@herronisland.org.

Very truly yours,
HMC MANAGEMENT

A handwritten signature in black ink, appearing to read 'Mark B. Anderson', followed by a long horizontal flourish.

Mark B. Anderson
President, Board of Directors

AMOUNT OF THE SPECIAL ASSESSMENT

The total amount of the Special Assessment is calculated as follows:

\$1,374,130	Final contractor cost for construction of the Water System and new power installation (the “Capital Cost”), <u>plus</u>
\$364,470	Professional services, interest charges, and other costs HMC expects to accrue through payoff of the KeyBank loan to HMC, <u>equals</u>
\$1,738,600	Total of Special Assessment (or “Adjusted Capital Cost”)

Each water Connection will share in payment of the Special Assessment. The per-Connection proportionate share is determined by dividing the Adjusted Capital Cost by the number of water Connections (less an allowance for delinquencies) as follows:

\$1,738,600	Adjusted Capital Cost, <u>divided by</u>
390	Number of water Connections less allowance for six (6) delinquencies <u>equals</u>
\$4,465	per-Connection proportionate share (includes a \$7 amount for contingencies)

This is the share of the Special Assessment that Members are responsible to pay for each water Connection they have.

OPTIONS TO PAY THE SPECIAL ASSESSMENT

Members may pay this Special Assessment in one of two ways: a one-time payment or payments over time. **Members must now choose one of two options.** Questions regarding these Options should be directed to the Island Manager as soon as possible, at hmcmanager@herronisland.org.

OPTION #1: ONE-TIME PAYMENT. Members may make a one-time payment in full, which must be paid with a **cashier’s check, actually received** by the HMC Office no later than **March 7, 2013**. If a Member pays this per-Connection share in full on or before **March 7, 2013**, that Member’s obligation to pay the Special Assessment for the Water Project will be satisfied in full. Members making the one-time payment will still receive a water bill from HMC for operational costs and water usage. HMC will record an acknowledgement and release with the Pierce County Auditor listing all Connections for which the full per-Connection share has been paid (a sample form will be posted on the HMC website). A one-time recording and processing fee of \$10.00 will be charged to Members for each per-Connection share that is paid using this Option #1.

These one-time payments will be applied to pay down the Adjusted Capital Cost of the Water Project, and will reduce the amount that HMC has to borrow from the USDA. These one-time payments will not be used to pay for any costs or interest associated with the USDA loan.

IMPORTANT

MEMBERS DECIDING TO MAKE A ONE-TIME PAYMENT OF THEIR WATER PROJECT SPECIAL ASSESSMENT MUST DO SO IN FULL BY CASHIER’S CHECK PAYABLE TO HERRON ISLAND WATER DEPARTMENT AND DELIVERED TO THE HMC OFFICE NO LATER THAN MARCH 7, 2013.

This is the payment window that has been discussed numerous times in the Beachcomber and in other correspondence to the Members.

Time is of the essence in making the one-time payment. Unless a Member makes the one-time payment in full by **March 7, 2013** with a **cashier's check** payable to **Herron Island Water Department**, that Member will be deemed to have elected to fund their share of the Special Assessment over the life of the USDA loan. This firm deadline is established so that HMC can accurately determine the amount it must borrow from the USDA and pay off the interim loan.

OPTION #2: PAYMENTS OVER TIME. HMC is securing a loan from the USDA to pay for the costs of the Water System that are not paid by Members making a one-time payment of their Special Assessment. The term of that loan will be for forty (40) years and the outstanding balance will accrue interest at an annual rate of 2.5%. The USDA loan is being executed between HMC Management as the borrower and the USDA as the lender. This is not a loan between HMC and the Membership or any individual Member or Members. However, HMC must pass the cost of the loan on to Members who will be paying this Special Assessment over time.

If a Member does not make the one-time payment on the terms set forth in Option #1, that Member (and subsequent owners of that Connection) must make installment payments plus interest (@ 2.5%) over the life of the USDA loan (40 years). The Member's obligation will now be considered a "Loan Special Assessment" per Section 9.5 of the Bylaws. The amount due under the Loan Special Assessment for each Connection will include not only the per-Connection proportionate share, but also a prorated amount to cover the interest, costs, and fees that HMC is obligated to pay in accordance with the terms of the loan contract with the USDA. The total of payments will be as follows:

\$4,465	Per-Connection proportionate share, <u>plus</u>
\$2,599	Interest accrued over 40 years @ 2.5%, <u>plus</u>
\$64	Estimated share of loan closing costs and servicing fees (including those charged by USDA) <u>equals</u>
\$7,128	Total of Loan Special Assessment per water Connection to be paid in equal installments over 40 years.
\$14.85	Amount of payment per month per water Connection (billed quarterly) for the Loan Special Assessment.

Any Member who chooses to pay over time, but later wishes to "pay off" the balance of their Loan Special Assessment may do so. However, any such payoff will include not only the unpaid balance of the per-Connection proportionate share, but also that Member's full share amount of the interest that would have otherwise accrued over the life of USDA loan plus their proportionate share of the costs and fees that will be incurred by HMC over the life of that loan.

It is extremely important that you consider your choice carefully. This is your only opportunity to make a one-time up-front payment that will limit the total amount of your share of the Special Assessment to \$4,465 (plus a one-time processing and recording fee of \$10.00).

Summary of Options for Paying the Herron Island Water Project Special Assessment

OPTION #1 – ONE-TIME PAYMENT

Requirements and Notes:

Payment must be made in full in the amount of \$4,475.00 per Connection (includes the one-time recording and processing fee).

Payment must be made by a cashier's check made payable to the Herron Island Water Department.

Payment must be actually received by the HMC Office no later than March 7, 2013.

A one-time recording and processing fee of \$10.00 will be charged for each per-Connection share that is paid using this Option #1.

Members who make the one-time payment will still get a water bill from HMC for operational costs and water usage.

OPTION #2 – PAYMENTS OVER TIME

Requirements and Notes:

Unless a Member makes the one-time payment on the terms of Option #1 above, that Member will be deemed to have elected this Option #2 to make payments over time.

Payments due will be billed quarterly to the Member.

Payments due will include amounts due for loan interest @ 2.5%, loan costs, and loan fees.

Payments will continue for 40 years, unless paid off earlier by HMC.

IMPORTANT

MEMBERS DECIDING TO MAKE A ONE-TIME PAYMENT OF THEIR WATER PROJECT SPECIAL ASSESSMENT MUST DO SO IN FULL BY CASHIER'S CHECK PAYABLE TO HERRON ISLAND WATER DEPARTMENT AND DELIVERED TO THE HMC OFFICE NO LATER THAN MARCH 7, 2013.

This is the payment window that has been discussed numerous times in the Beachcomber and in other correspondence to the Members.

WHEN RECORDED RETURN TO:

HMC Management
P.O. Box 119
Lakebay, WA 98349

**ACKNOWLEDGMENT OF PAYMENT IN FULL OF THE HERRON ISLAND
WATER SYSTEM CAPITAL IMPROVEMENT SPECIAL ASSESSMENT
AND RELEASE OF LIEN**

Grantor: HMC Management, a Washington Nonprofit Corporation.

Grantee: _____(Member/Owner)

Legal Description (abbreviated): Lot_____, Block _____, Herron Island Div. No. _____,
Plat Book _____ Page _____, Pierce County, Washington

Assessor's Tax Parcel ID #: _____

RECITALS

A. HMC Management, a Washington nonprofit corporation ("HMC"), is the homeowners' association for Herron Island, pursuant to the Second Amended and Restated Bylaws of HMC Management, F/K/A Herron Maintenance Co. ("Bylaws"), recorded May 20, 2005, under Auditor's File No. 200505200134 in Pierce County, Washington, and is the owner of the Herron Island water system.

B. In 2012, pursuant to the Bylaws, HMC imposed a Special Assessment against all Members of HMC for the 2013 capital improvement of the Herron Island water system (the "Special Assessment"). Under the Bylaws, this Special Assessment is enforceable as a lien against each Member's real property on Herron Island.

C. The Member identified herein has paid the Special Assessment in full with respect to the real property described herein. The purpose of this instrument is to acknowledge payment of the Special Assessment in full and to release any lien against said Member's real property arising from the Special Assessment.

SATISFACTION AND RELEASE

NOW, THEREFORE, HMC Management represents and declares as follows:

1. _____, Owner(s)/Member(s), has paid \$_____ to HMC Management, receipt of which is acknowledged, the payment of which amount constitutes payment in full satisfaction of the 2013 Special Assessment for capital improvement of the Herron Island water system with respect to the real property described as follows:

Lot _____, Block _____, Herron Island Division No._____, according to Plat recorded in Book _____ of Plats at Page _____, in Pierce County, Washington.

2. Any lien against said real property that is authorized by the Bylaws to secure payment of the 2012 Special Assessment for capital improvement of the Herron Island water system is hereby released.

3. This release of lien applies only to the 2013 Special Assessment for capital improvement of the Herron Island water system and only to the real property described herein. This release of lien shall not apply to any other lien that may currently exist or hereafter be imposed for any reason with respect to the real property described herein, including any lien that may be imposed to secure payment of any future bill or assessment for water availability and/or consumption and/or for the maintenance, operation, or improvement of the Herron Island water system.

DATED this ____ day of _____, 20____.

HMC MANAGEMENT

By: Claudia Ellsworth, Island Manager

[illegible]

On this day personally appeared before me Claudia Ellsworth, to me known to be the Island Manager and duly authorized agent of HMC Management, the non-profit corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that she is authorized to execute the said instrument on behalf of said corporation.

SUBSCRIBED AND SWORN TO this ____ day of _____, 20____.

Printed Name: _____
 Notary Public in and for the State of Washington
 Residing at: _____
 My Commission expires: _____