



HMC MANAGEMENT

Water System Upgrade Recent Developments Updated as of **March 2, 2010**

Two avenues of action to upgrade the Herron Island Water System have been discussed recently:

1. Retention of Ownership and Financing of Upgrade with USDA Community Facilities Loan Funds.

Under this option, HMC retains ownership of the system and obtains financing from the USDA Rural Development Community Facilities Loan funds, including some funding from the American Reinvestment and Recovery Act (stimulus). Ownership needs to be held by HMC for the duration of the construction and loan repayment period. HMC will determine the method by which its members will repay their share of the costs. Maintenance and operation could be held in-house or contracted out. HMC qualifies for this funding because it is a rural, privately owned water system.

2. Transfer of Ownership of the System to a Cooperative (such as Peninsula Light) or other Investor Owned Enterprise (Washington Water).

Under this option, HMC irrevocably transfers ownership and operation of the system and its assets to a third party, which is responsible for designing, financing, constructing and recovering its costs, plus maintenance and operation of the water system. The third party company will determine the construction repayment period, method and amount, along with other system costs they may deem appropriate. They will not have access to the federal funds, but will rely on commercial lending.

In the last six months, the Board and Water Project Committee have become aware that loan terms for USDA funding have become much more favorable, but funds must be obligated *no later than September 2010*. This has accelerated the schedule, and we have set out to gather information for members on both **of the above** options. Information on the estimated cost to each member from either option will be assembled by the Board and the Water Project Committee and presented in the March Beachcomber.

The Board is currently planning to present information to members in the March Beachcomber on the major options, and send out a mail ballot on ***Retention of Ownership vs. Transfer of Ownership*** in mid-April. Ballots will be received and counted **on May 8 at the Board meeting**, in order to provide direction on moving forward with this critically important project.

Here is a quick overview of the issues:

Why is an upgrade of our water distribution system necessary?

✚ System 50 years old,

- ✚ Fragility of aging pipe;
- ✚ High frequency of leaks requiring repair;
- ✚ High frequency of leaks leads to excess pumping;
- ✚ Fear of contamination due to frequent leaks;
- ✚ Lack of fire flow in hydrants, and too few hydrants on island;
- ✚ Impact on property values – buyers don't want to buy in to a big water problem.

What does upgrade mean?

- ✚ Improved fire flow and fire protection for members (fire is Island's biggest hazard)
- ✚ Maximum authorized number of connections = **525**
- ✚ Metered water to members, with rate structure that reflects fixed service costs and/or usage (currently required by law to be implemented January 2017);
- ✚ Opportunity to conserve water;
- ✚ Improvements to well house
- ✚ Possible undergrounding of dry utilities in collaboration with CenturyTel & Peninsula Light.

What are the benefits of upgrade?

- ✚ Avoidance of catastrophic failure.
- ✚ Conservation, less use of water supply.
- ✚ Reduction in leaks; less exposure to contamination and water outages.
- ✚ Improved fire protection/fire flow.
- ✚ Maintenance or enhancement of property values because of upgrade.

The following Questions & Answers have been assembled to respond to member inquiries. If you have additional questions, please contact HMCmanager@herronisland.org to have your question (and answer) added to this list.

Option 1: Retention of Ownership/
Project Funded by USDA Federal Stimulus Funds

Option 2: Transfer of Water System Ownership/
Financing by Transferee