

Water System Upgrade Membership Questions - 9/20/10

I) Retain ownership/Government financing

- 1) We have spent \$23,500 to date. How much more do we anticipate spending on the government loan application? *We have committed \$27,650; about half of what was authorized by the membership vote. At this point we see no further application expense.*
- 2) When do we anticipate learning from the government if we qualify for the loan? *We were assured months ago that we qualify for the loan. We are completing the environmental and preliminary engineering reports required by USDA.*
- 3) We are "tenth in line" for funding totaling 19 million. How much are the 9 groups ahead of us seeking? *The USDA recently advised us that because we are asking for much less than many of the other applicants, we move up in line and the larger borrowers move to the back of the line. However, they did not disclose any details of the other applications. They have assured us that we are doing all that is required of us at this time.*
- 4) If there is not enough money available for us in 10th place, will there be additional money in the future? *Funds are available as they are appropriated by Congress.*
- 5) The anticipated construction cost using government financing is \$2.5 million, is that correct? *The latest construction cost number is approximately \$2.5 million but the source of the funding is not driving the amount of the construction cost. We've used that as a working number, but it is subject to many variables, including construction bids and the logistical challenges of working on an island.*

II) Retain ownership/private financing.

- 1) Which commercial lenders have we met with and what loan rates and terms have we been offered? *Key Bank – 6.35% for 20 years (Versus 4.25% for 40 years being offered by the government.)*
- 2) What terms and conditions would be involved if financing was thru a special assessment of the members? *The Board has informally discussed setting up a "water utility" to assure that the utility is self-supporting through rates and water-related assessments. This is standard practice for municipal water utilities; in fact, for them it is a requirement of state law.*
- 3) What will it cost to construct the system using private financing and not government financing? *Once again, the source of the funding is not driving the amount of the construction cost. The Request for Information is intended to elicit more detail on this topic.*

III) Transfer ownership (Penlight)

- 1) What are the current loan terms and conditions being offered by Penlight? *There are none being offered at this time. Peninsula Light has repeatedly declined to provide current useable information unless and until HMC first decides to turn over ownership. However, they will be invited to respond to the Request for Information.*
- 2) What are the estimated construction costs if the system is owned and upgraded by Penlight? *See answer above.*

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3) What are Penlight's rates for operating and maintaining the system? These were presented to the membership in a comparison spreadsheet when the decision was made to select Washington Water as our interim maintenance and operating system provider. The comparison spreadsheet was published on the website in June. Another copy is provided with this communication.

IV) Communications, Scheduling and Risk Assessment

1) Who will be creating, implementing and managing the communications plan to keep the members informed throughout this process? The Board, acting on the advice and recommendations of the Water Project Committee. The communication methods include: report-outs at the monthly Board meetings, postings on the HMC website, special mailings as required, and in the Beachcomber. Additionally, we have set up a direct link for members to forward inquiries. It is memberinput@herronisland.org. This information is included in the September Beachcomber.

2) Specifically, if a "vote" is to take place "the first of the year", how will members who are out of the State or off-island be included in the process? The ballot process will be conducted in the same manner as any other ballot initiative that is presented to all members – through the US Postal Service.

3) When will a project schedule with identifiable project elements and associated deadlines be provided to the members? These will be provided after the membership votes on how to proceed, and following receipt of firm proposals from the competing construction contractors. The final schedule cannot be determined until the bid process has concluded.

4) What firm or consultant has been identified to provide the risk assessment and analysis for each option? We have engaged Northwest Water Systems to assist with the application process – preliminary engineering and environmental reports. If the system is retained, we will retain a water system engineering firm to draw up the detailed plans, bid documents, assist with the contractor selection, and oversee construction. Contracts will be reviewed by our attorney and our insurance broker. If the system is transferred, we anticipate relying more heavily on our attorney to assure that the interests of the members are protected, and that any commitment to replace the system by a date certain and in a specific manner is enforceable.

Attachment: Water Services Comparison Analysis