



# HMC MANAGEMENT

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## POLICY

Subject: Herron Island Water Department Financial Policy

Objective: To establish protocol and procedures regarding the administration of finances for the Herron Island Water Department.

Revision Date: June 9, 2012

### **I. The Herron Island Water Department**

The Herron Island Water Department (the “Water Department”) has been established as a distinct operational, administrative, and accounting function of HMC Management (“HMC”). The Water Department is a self-balancing entity in which water-related costs are supported by water-related revenues. The Water Department does not subsidize HMC General Assessments and is not subsidized by HMC General Assessments. HMC Assessable Unit Owners are “Members” of the Water Department. (HMC is not itself considered a “Member” for accounting purposes.)

The bill for the Water Assessment and the bill for the HMC General Assessment are mailed separately and should be paid separately. One payment should be payable and addressed to the Herron Island Water Department and the other payable and addressed to HMC Management.

### **II. Water Connections**

A Water Connection (“Connection”) consists of a shut-off valve, a water meter, and a tie to a Member’s water line. Costs for operation and maintenance of the Water Department will be distributed among Members according to the total number of Member Connections to the water distribution system, with a minimum of one connection per Assessable Unit. (Members with multiple Lots making up an Assessable Unit may subscribe to additional Connections if they desire. Any increase in the number of Connections will reduce the cost basis per Connection.) The allocation of costs in the budget for the Water Department will be based upon the number of Member Connections minus those Connections projected as delinquencies.

### **III. Sources of Water Department Revenues**

Water revenues will come primarily from four sources: 1) Capital Cost Recovery payments, 2) Reserve Contributions<sup>1</sup>, (3) Base Fees, and 4) Water Usage Fees.

### **IV. Water Assessment Billing**

1. **Interim Flat Rate Billing (Per Assessable Unit)**. Until construction of the new water distribution system is complete and an appropriate rate structure is established, the Water Department will charge Members a flat rate of \$20.00 per month, which will be billed quarterly. This flat rate covers operations, maintenance, reserves, and unlimited water usage.

2. **Operational Billing (Per Connection)**. After the construction of the new water distribution system is complete, an appropriate rate structure is established, and Members either pay individual capital costs in full or select the USDA-HMC financing option, the Water Department will charge Members their Water Assessment on the following basis:

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<sup>1</sup> Reference RCW 64.38.

**For Active Connections:**

- Capital Cost Recovery (if financed);
- Reserve Contribution;
- Base Fee; and
- Metered water use (Water Usage Fee).

**For Inactive Connections:**

- Capital Cost Recovery (if financed);
- Reserve Contribution; and
- Base Fee.

**For all Connections, the Capital Cost Recovery (if financed), the Reserve Contribution, and the Base Fee will all continue to be charged and billed even if there is no water usage through that Connection.**

3. **To Avoid Water Usage Billing.** If there is no use, there will be no water usage charge. Each Assessable Unit Connection will have a meter that will allow manual shutoff by the Owner of the Assessable Unit. Members may also request that their Connection be placed in an inactive status, in which case a lock will be installed on their meter. (There will be no charge if a Connection is placed in inactive status before August 1, 2012. Beginning on August 1, 2012, fees will be charged for locking and unlocking meters).

4. **Late Payments.** The Water Department will charge a handling fee, per the HMC fee schedule, for any payment made for Water Assessments that is not postmarked or received by the Water Department in the month the Water Assessment is billed. Interest will be applied on any balance that is more than 30 days past due.

**V. Future Issues for the Water Department**

1. **USDA Loan Recovery (Capital Cost Recovery).** The USDA loan is secured by the assets of HMC, not the assets of individual Members. During a limited time period of about 30 days after all project costs are known and finalized, HMC will offer Members two choices for payment of their portion of construction costs. Members may make a full one-time payment to HMC for their share of the Capital Costs, or choose to finance their portion of the Capital Costs through HMC over the full term of the USDA loan. This payment choice will be recorded in the HMC Office with the property Connection address. Individual Members who choose to finance their portion of the Capital Costs through HMC will be obligated to make payments to HMC during the full term of the USDA loan. The obligation to make payments for the loan will not change regardless of any changes in ownership of the property. Once a Member chooses to finance their portion of the Capital Costs through HMC, HMC will not accept any individual prepayments of the amounts that are due over the full term of the loan. Once the loan is completely paid off (most likely after 40 years, the term of the USDA loan), the Water Assessment will no longer include Capital Cost Recovery. Note that, at some time in the future, the USDA loan *may* be able to be paid in full *before* its 40-year term, if all financing Members unanimously agree to simultaneously pay HMC for the total remaining loan balance; HMC would then be able to pay off the USDA loan in full.

2. **Non-Payment of Water Assessment Bill.** All Members are responsible for the costs to sustain Herron Island Water for the benefit of the entire community. The Water Assessment covers cost elements that replenish the water reserves, provide water testing, service, and repairs, all of which are critical components of maintaining a viable water system. A Member who does not pay their Water Assessment bill becomes delinquent in the same manner as if they had not paid their HMC General Assessment, contractor ferry fees, or any other HMC charges. (HMC Bylaw 9.10 - Creation of Lien and Personal Obligation of Assessments.)

Each year when the annual Water Department Budget is established, the Connection Base will be established by the total number of Connections minus a certain number to account for projected delinquencies. All Members will thus share the burden of costs associated with delinquent Members. All Members will also benefit from any costs recovered from sales of properties or payment of liens on properties of delinquent Members. If costs are not recovered from the liens or if a property is not sold but

reverts to HMC, then the Water Assessment for the delinquent Member will have to be paid out of water reserves in the event the number of paying Connections falls below the calculated Connection Base used for that year.

3. **Effect of the Creation of New Assessable Units.** All existing Assessable Units are required to have a Connection to the water system. If a new Assessable Unit is created by the sale of a portion of an existing Assessable Unit after water system construction is complete, or when HMC sells a Lot it owns, any Assessable Unit that may be created will be required to pay the HMC Assessment and, if it does not have an established Connection, that new Assessable Unit will be required to establish a Connection to the water system and will be liable to pay a new Water Assessment. The Water Department will charge a Connection fee and Capital Cost Recovery according to the HMC Fee Schedule then in effect. New Members will then have 90 days from the date of closing to establish a tie to the water system. Revenue from new Assessable Units will be put into the Water System Operation and Maintenance Budget if needed, or into the Water Reserves, which will distribute the increased revenue to all existing Members whether or not they elected to pay up-front or participate in the USDA-HMC loan.

4. **HMC Owned Parcels.** HMC Lots will have metered connections, to be installed at the North Beach Park, Goodpastor Park (the Community Center and Office), the Ferry Dock (Island Side), the Community Garden Lot, the Water Department Lot, South Beach Park, and the Nature Park. These Connections will not be included in the Connection Base for cost distribution, because they are owned by HMC for the benefit of all Members.

5. **If Fees Do Not Cover Operational Costs.** If the base fees and water usage fees do not cover the operational costs due to water system cost increases or reduced water usage, then, the rates will have to change to cover those operational costs. The rates could actually go down if water usage goes up or costs are less than estimated. Because the Herron Island Water Department is a self-balancing entity, rates will have to be adjusted periodically to account for any changes in these operational costs. The operational reserves will be used to keep the rates as stable as possible in the short term and will be adjusted to cover any long term trends in costs.

6. **When a Member Sells Their Property.** If, after the water system construction is complete, a Member sells Lot owned by the Member that contains a Connection, the new Owner will be obligated to participate as a Member of the Herron Island Water Department, and to pay the Water Assessment, including bills for Capital Cost Recovery, if financed. This obligation will continue to exist whether or not the Lot containing the Connection becomes part of an existing Assessable Unit or remains a separate Assessable Unit.

## **VI. The Cross Connection Control Program**

HMC has adopted, as part of our Water System Plan, a Cross Connection Control Program (CCCP) pursuant to Washington State Administrative Code (WAC) 246-290-490 to protect our Herron Island Water System from contamination and pollution that would result from existing or potential cross-connections. As a part of this Program, the Herron Island Water Department will maintain appropriate records, including an inventory of service Connections that require CCCP, inspection reports, and any backflow or other incident reports that affect CCCP.

All Members who have a Connection that has a direct water line to, for example, a hot tub, closed fire protection system, pool and/or in ground sprinkling system will be required to install a certified backflow prevention device, register it with the Water Department, and have it inspected annually.

Recommended:

Approved:

*Signature on file*

*06/09/12*

*Signature on file*

*06/09/12*

Chair, Water Committee

Date

President, Board of Directors

Date