

Herron Island Water Utility Board Meeting Minutes
January 14, 2012

Call to Order: Mark Anderson called the meeting to order at 10:00 AM.

Roll Call: Mark Anderson, President; Dianne DeGood, Secretary; Judy Greinke, Treasurer; Pat Zazzo, Member at Large. Claudia Ellsworth, Water Utility Manager. Gary Wanzong was on an excused absence.

Mark announced that Board members would be recording the meeting for the purpose of completing the minutes.

Bills to be paid – Judy Greinke reported that we are billing the water bills quarterly, which is different than HMC Management. With the funds we have received from the water bills, we are transferring one quarter of the reserve budgeted amount into the Water Reserves and the remaining reserves will be added quarterly. We have been paying some of the water project costs from our regular Water Bank Account, but these expenses can be reimbursed when we receive the interim loan for construction.

Judy explained that on this month's list of bills there was a payment to a Member that was actually a reimbursement. The Member thought they had to pay \$800 to get a water connection on their property. They found out later they had a connection, so they deducted the Water Bill for the year and reimbursed the Member for the remainder.

Carolyn also explained that the Vanguard reserve bill was for one quarter of a year and the check from the Water Utility will be combined with HMC Management's check, since HMC is still responsible to pay the Vanguard bill.

With no other questions, Judy moved to pay the bills as presented. Motion carried.

Mark Anderson called for a recess to the Water Utility Meeting so that we could move on to the HMC Management Board meeting.

Following the HMC Management Board meeting, the Water Utility Board Meeting reconvened with the same Members of the Board present.

Previous Water Utility Board Meeting Minutes: Mark Anderson moved to approve the December 10, 2011 meeting minutes. Motion carried.

Correspondence: There were three items of correspondence:

Department of Revenue – A Notice of Quarterly Reporting of Our Excise Tax Return. The 4th Quarter of 2011 is due by January 31, 2012.

DMS Accounting - Special Notice from the Washington State Department of Revenue regarding the tax reporting of nonprofit Water Associations.

Email from a member asking about waiving a water hookup on a contiguous lot that might be available for purchase.

Finance: We are billing the water quarterly and have about 15 Members who have not paid their water bill. We have a Water Financial Policy that states delinquent Members of the Water Utility will be treated the same as delinquent Members of HMC Management. It came up just recently and a Member who was delinquent with the water bill asked to come across on the Ferry. Since this is the first time this happened and they were current with their assessment payment they were allowed this one time to come to the island on the Ferry. Judy suggested that, when we send out the next bill February 1, we explain that the payment is due by the end of February, and that, after February 29th, the bill will be considered late and have a late fee added. After March 31st the bill will be delinquent. At that point it will be treated the same as any HMC Management Assessments are treated. We need to resolve the issue of non-payment by denying Ferry Access.

Unfinished business:

Mark explained that the Herron Island Water Utility was created as a separate corporation so that we could have a tax exempt status. The Utility is now being treated as a 501(c)(12) corporation by the Internal Revenue Service. The exemption was for a tax benefit for the Membership, which was projected to result in a \$15,000 savings per year. The initial estimate given was based on all revenue the Water Utility receives - not only water use fees, but also the base fee and repayment of capital loans. As it now stands, when HMC Management bills the Members for the water bill, the only portion that would be taxable would be the user fees. The money received for the overall/common costs and the capital loan costs would not be taxable.

The Board decided to take a look back and re-evaluate what was occurring with a separate corporation, two separate boards and all the operating expenses that would have to be paid and realized that the tax benefit was not as great as we initially believed. In order to maintain a separate entity it would also require an annual audit at the cost of about \$4,000 to \$5,000, making it less economically viable. The Board now intends that HMC Management fully own and manage the

Water Utility. We would still maintain a separate bank account and accounting system for the water revenues and expenses and keep a separate reserve fund for water so that we can segregate it from the rest of HMC Management reserves. We expect that the revenue received for the water will be offset by the expenses, which will mean no increased tax liability.

Unless there is an unforeseen reason, we plan to dissolve the Water Utility with the State of Washington by simply not renewing it as a corporation. The Water Utility will not be separate from HMC Management but, instead, a distinct part of HMC Management. After receiving Member input regarding the proposed Water Utility Bylaws, the Board went back further and looked at the big picture. We found we could eliminate a need for a second board and that the water system could still be governed by the HMC Management Board. It should help in reducing the administrative work load on the office staff. We may have to amend the HMC Management Bylaws once we start to read meters and bill for water usage, and will have to make sure that the Water Financial Policy dovetails with the HMC Management Bylaws.

A Member suggested that another homeowner's association kept everything separate by getting another PO Box for its water system. We are required to read the water meters by 2017; the State is mandating it then for water conservation. It was noted that as soon as we start reading meters, the Members will see that they are only paying for their own usage and not, for example, for the neighbor who waters his lawn with a sprinkler system.

Another Member asked that when we work on the Bylaws that we make a provision that future Boards cannot take money from the Water System Account or reserves for other uses. The state requires us to establish strict provisions on how that cannot happen unless we borrow the funds with a two year pay back with interest.

It was asked about what the provisions will be for denying ferry access. It was explained that the Water Utility will now be under HMC Management and delinquent Members will be denied ferry access. Judy suggested that, when we send out the February 1 water bill, we also remind Members about delinquencies. It was asked that if Members don't pay their water bill and we shut off the water, why are we denying them access to the Ferry? It was explained that the water bill covers the costs to sustain the Utility and maintain a viable water system. The time frame for a delinquency is 60 days. As a function of HMC Management, the water bill is considered an Assessment. We have to weigh all of this on the administrative side, so that we can insure Members pay their water bill as well as their general Assessment. We are required to send the water bill first class postage, so there probably won't be a bill every month. There is a great potential for lost revenue if we don't put some teeth into getting the water bills paid on time. We want to make it clear now so that we don't have to charge paying Members more in the future if we don't get the funds.

Our Bylaws already empower HMC Management to manage the water system. However, it may be prudent to modify the Bylaws to clarify this in more straightforward language, including the manner for assessing contiguous properties for the water system.

A Member mentioned that the properties that HMC Management has on their books are not getting revenue from Assessments or water. How could someone who buys one of these Lots in the future pay for a water connection? It was explained that there is a provision for this in the Water Financial Policy posted on line. There was some consideration into putting connections on those Lots, but all of the Members would be paying on those Lots until they were sold. The Lots HMC Management owns are listed in the Beachcomber once a year and the Land Use Committee keeps track of them.

Since there was no further business, Mark Anderson moved that we adjourn the Herron Island Water Utility Board meeting. Motion carried.

Respectfully submitted,

Dianne DeGood, Recording Secretary