

Herron Island Water Utility Financial Policy

I. Water Utility

The Herron Island Water Utility, hereinafter referred to as the “Utility,” is a Non-Profit Corporation fully owned by HMC Management, hereinafter referred to as “HMC.” The Utility is a self-balancing entity where water-related costs are supported by water-related revenues. The Utility neither subsidizes nor is subsidized by HMC general assessments. The Utility is an entity separate from HMC; however, any loan secured by an HMC asset remains the responsibility of all HMC Members.

Each Owner of an HMC Assessable Unit is a “Member” of the Utility. Each HMC Assessable Unit must have a minimum of one connection. (HMC Management is not considered a “Member” for accounting purposes.)

The Utility bill and HMC Assessments are mailed separately on different schedules. Each bill is to be paid individually by check or cash. If a combined payment is received by HMC, the Utility will be credited first.

The definitions of certain terms contained in this Policy are found in Appendix A hereto.

II. Utility Connections

The Utility will consist of Connections with each having a shut-off valve, water meter, and a tie to a Member’s water line. The basis for distribution of operation, maintenance, reserves, debt service, and other costs will be the total number of Member Connections to the water distribution system with a minimum of one connection per HMC Assessable Unit. (Members with multiple lots making up an HMC Assessable Unit may subscribe to additional connections if they desire. This will then increase the basis for cost distribution.) The Utility budget will use a connection base composed of Member Connections minus those connections estimated as delinquencies.

III. Elements for Utility Revenues

The Utility revenues will come from three areas:

1. Loan recovery;
2. Reserve contributions;¹ and
3. Base fee, water usage fee and other revenue.

IV. Utility Billing

Interim flat rate billing per Water Utility Member: The Utility will bill at a flat rate until such time as the upgrade/replacement project is complete and an appropriate rate structure is established. (*This rate covers operations, maintenance, reserves, and zero to unlimited water usage.*) The monthly flat rate will be billed quarterly.

A \$30.00 handling fee will be charged if water payments are not received or postmarked as having been mailed in the month billed. Interest will be applied to any balance due exceeding 30 days.

¹ Reserves law reference: RCW 64.38

Operational billing per connection: Effective upon project construction completion, and acceptance by USDA, water rates are established to include the following for active and inactive connections:

To avoid **water usage** billing: (a) Each connection will have a meter, which will allow manual shut-off by the owner. No use - no water usage charges. (b) Members may request management to place their connection to inactive status with a lock on their meter. *Fees may apply.*

Active Connections:

- *HMC loan debt service – if financed*
- *Base Fee*
- *Reserve Contribution*
- *Metered water use*

Inactive Connections:

- *HMC loan debt service – if financed*
- *Base Fee*
- *Reserve Contribution*

(Base fee and reserve fees will continue to be billed even though there is no water usage.)

Non-payment of Utility Bill: A Member who does not pay his/her Utility bill becomes delinquent in the same manner as not paying their HMC assessment, contractor ferry fees, or any other HMC charges. (HMC Bylaw 9.10., Creation of Lien and Personal Obligation of Assessments.) All Members are responsible for the costs to sustain the Utility for the benefit of the entire community. The Utility bill covers cost elements to replenish the water reserves, provide water testing, service, and repairs, which are all critical components of maintaining a viable water system.

The costs associated with delinquencies are shared by all Members because the Connection base for Utility billing will be reduced to account for the estimated number of delinquent Members. All Members also benefit from costs recovered from sales of properties or payment of liens on properties of delinquent Members. If costs are not recovered from liens and if the property is not sold and reverts to HMC, then the water bill for the delinquent Member must be paid out of Utility Reserves when the number of Connections falls below the calculated connection base used that year.

V. Future Issues for Utility

1. **USDA loan recovery:** HMC is the applicant and HMC assets will secure the USDA loan, and not the assets of individual Members. During a limited time period of about 30 days after all upgrade/replacement project costs are finalized, HMC will attempt to offer Utility Members two choices for payment of their portion of construction costs. Members may make a full one-time payment to HMC or choose to finance their portion through HMC for the full term of the USDA loan. This payment choice will be recorded with the property Connection address. Individual Members who choose to finance through HMC are obligated to make payments to HMC for their portion during the full 40 year term of the USDA loan. The obligation to make payments for the loan will remain with the Owner of the property. Individual prepayments, after a Member has chosen to participate in the full 40 year term HMC loan, will not be accepted by HMC. After the loan is paid in full, the financed capital cost portion of the Utility bill goes away. Because the USDA loan carries no prepayment penalty, the loan can be paid off early should sufficient reserves accrue or financing Members decide unanimously to prepay.

2. **Contiguous lots divided and/or sold and HMC lots sold following construction completion – new Assessable Unit:** When either an HMC Assessable Unit of contiguous lots is divided and/or sold or when an HMC lot is sold, without an established connection, a new HMC Assessable Unit and Utility Member is created. New Members are required to have a minimum of one connection to the water system. The connection fee will be the annual capital cost, base fee, and reserve contributions times the number of months/years since the project completion date payable at the time of closing to HMC. (A cap or connection fee may be established.) New Members will then have 90 days to establish a tie to the water system from the date of closing. This revenue from new Member connections will be put into Utility reserves, which benefits all existing Members through increased revenue, regardless of electing to pay up-front or participate in financing with HMC.

3. **HMC owned parcels:** The following HMC facility lots will have metered connections: North Beach Park, Goodpastor Park and the Community Center and Office, island side ferry dock, community garden lot, water Utility lot, South Beach Park, and the Nature Park. These connections will not be included in the cost distribution base as they are owned by all Members. For all HMC-owned lots that might be sold, no connection will be established and no cost will be added to the base for cost distribution.

4. **Fees do not cover operational costs:** If base fees and water usage fees do not cover the operational costs due to water system management cost increases or reduced water usage, then as with any Utility the rates will change to cover costs. The rates may decrease if water usage increases or costs are lower than estimated. The Utility is a non-profit (also a non-loss) entity so rates may have to be adjusted periodically to cover costs as they may arise. The operational reserves may be applied to mitigate any sudden increases in costs.

5. **When a Member sells their property following construction completion:** If a lot containing a connection is sold, the obligation to participate and pay water rates to the Utility and to continue HMC loan payments, if financed, stays with the property and the new owner. This obligation is independent of whether the lot becomes part of an existing HMC Assessable Unit or remains a separate HMC Assessable Unit. For example if a lot (*with a water connection*) is sold to a neighboring contiguous lot owner (*with a water connection*), the new owner may qualify as an HMC Assessable Unit paying one HMC assessment but will have a minimum of two water connections and two water accounts for billing. This helps to keep the connection base for the Water Utility stable with less financial impact on payments by existing Members.

VI. **Cross Connection Control Program.**

HMC 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 the Herron Island Water System from contamination and pollution that would result from existing or potential cross-connections.

The Utility will maintain records, inventory of service connections that require CCCP inspection reports and any backflow incident reports.

Those Member connections that have a direct water line to a hot tub, closed fire protection system, pool and/or in- ground sprinkling system will be required to professionally install a certified backflow prevention device, register it with the Utility, and have it inspected annually.

VII. **General Provisions:** This policy is effective November 12, 2011, and supersedes all previous versions.

Recommended to the HMC Board of Directors by the Finance Committee:

Judy Greinke,
Treasurer, HMC Management Board of Directors

Adopted by the HMC Board of Directors.

Mark B. Anderson
President, HMC Management Board of Directors

APPENDIX A

HERRON ISLAND WATER UTILITY FINANCIAL POLICY DEFINITIONS

UTILITY: The Herron Island Water Utility, a Washington non-profit corporation.

ASSESSMENT: All sums chargeable by the Utility including regular water bills and special assessments, loan payments, fines imposed, interest and late charges, handling fees, and all costs of collection on any delinquent account.

CONNECTION: A water service connection that has a tie to the Herron Island Water Distribution System.

MEMBER: An Owner of a Lot or Lots that make up an HMC Assessable Unit.

FEES: The Utility's charges for the use and maintenance of the Herron Island Water System and for services provided to Members.

ACTIVE CONNECTION: A water connection with water consumption.

INACTIVE CONNECTION: A water connection with no water consumption.

UPGRADE/REPLACEMENT PROJECT: Water system improvements and distribution line replacement.

INTERIM WATER UTILITY MEMBER: An HMC Assessable Unit Owner.

OPERATIONAL WATER UTILITY MEMBER: An HMC Assessable Unit Owner with one or more metered connections.

RESERVES: Establishment of a reserve account to fund major maintenance, repair, and replacement of the common elements of the Herron Island Water System over the next 30 years.