

**HMC Community Water Meeting
(April 10, 2010)**

Call to Order: Fred Fath called the meeting to order at 1:00 PM.

At the table: Fred Fath, Mark Anderson, Janet Podell, Todd Krause, Steve Chapin, Claudia Ellsworth

The purpose of this meeting was to bring Members of the HMC community together to discuss the issues surrounding the upcoming Membership vote on the following Ballot Issues:

- **Ballot Issue No. 1:**

SHALL HMC MANAGEMENT REPLACE AND UPGRADE THE CURRENT ISLAND WATER DISTRIBUTION SYSTEM, TO INCLUDE THE ADDITION OF FIRE HYDRANTS AND TO OTHERWISE MEET STATE WATER REGULATIONS?

- **Ballot Issue No 2:**

SHALL HMC MANAGEMENT USE EXISTING RESERVE FUNDS TO DEVELOP ENGINEERING PLANS AND OTHER SUPPORTING DOCUMENTS TO PERMIT TIMELY APPLICATION FOR A FEDERAL RURAL DEVELOPMENT "COMMUNITY FACILITIES" LOAN IN AN AMOUNT SUFFICIENT TO CONSTRUCT THE REPLACEMENT WATER SYSTEM AND UPGRADES?

- **Ballot Issue No. 3**

SHALL HMC MANAGEMENT AMEND THE ARTICLES OF INCORPORATION TO REINCORPORATE SPECIFIC PURPOSES AND POWERS AS FOLLOWS:

The following paragraph shall be inserted under Article III – Purposes as a new Paragraph A.5 :

"To the extent permitted by law, to promote and give effect to the purposes stated in Article II of the original Articles of Incorporation dated April 30, 1958 as they are recited on Appendix A attached hereto." A new APPENDIX A shall be appended to the Articles in the form attached hereto.

Fred Fath (HMC Board President) established the ground rules for the meeting and introduced the parties at the table. He requested that questions be held until after each speaker has finished and then the meeting will be opened up for general discussion. Fred further stated that we will limit the meeting to 2 hours.

Steve Chapin (WPC Chair) was introduced and stood to address the attendees. He stated that this upgrade has been discussed for many years. He further stated that we now have an approved Water System Plan. The options open to us would be to do nothing and risk a catastrophic failure of a 50 year old water delivery system. The upgrade of the water system is the intent of Ballot Issue No. 1. Our new system will add fire hydrants and meters. The State is requiring the meters because they want to know about total water consumption and encourage conservation. Last year tallies showed that our wells pumped approximately 46,000 gallons of water per day (or roughly 115 gallons per day per lot), which indicates that our system has a lot of leaks. He gave a brief overview of why the Water Project Committee was formed.

What is it going to cost to replace our system? Let's assume approximately \$2.4M divided by approximately 400 meters (or assessments). This computes to \$6,000 per meter. (Currently there are 396 assessable units.)

How should we pay for this? We can collect a special assessment from every Member or we can borrow the money. We've talked to a commercial banks about their terms and interest rates. Then after the new system is installed we will continue to pay separately for the daily operations and maintenance of the system.

An option for government financing surfaced late last year. It is Stimulus money provided through USDA/RD federal government and Herron Island has been assured we are eligible for a loan from these Stimulus funds. The process for applying for government money is a little more complex than borrowing from a commercial institution. The government sponsored loan has a very low interest rate at this time. Ballot Issue No. 2 addresses this issue. Steve went on to discuss another option that is also available to us if we elect to turn over our water system to an independent utility such as Peninsula Light. All options require HMC Members to repay loans and to pay for the operation and maintenance of the water system.

Mark Anderson (HMC Board Member) then introduced himself to the Members and stated that his goal in this process is to make the right decision for HMC. Ballot Issue No. 1 – Do we even want to pursue this? Except for one instance, he has heard no opposition to this.

Ballot Issue No. 3 addresses the Articles of Incorporation for Herron Island that were first established in 1958. It provided the association with the authority to independently manage itself. One of the powers it provided was to own and operate a water system. In 2004 the Articles of Incorporation were condensed and the list of specific powers was removed. This had the effect of deleting the specific authority to own and operate a water system (as we do now). Amending the Articles to restate these powers would give us back the authority we should have to own and operate a water system. Mark went on to say that restatement of this language is required in order for HMC to be eligible for the government loan but it would not require us to retain our system.

Ballot Issue No. 2 addresses immediate outlay of cash that in itself has been the subject of much discussion and in some cases heated debate. The issue to be decided is to spend some preliminary money to keep the USDA option open. Are we asking for a blank check? No. The initial cash outlay should be approx. \$15,000 which comprises \$8,500, for cultural/archaeological costs, and \$6,000 for a preliminary engineering review and an environmental assessment. These expenses will not be wasted since they will be applied to any option we ultimately decide to pursue. However, to keep the USDA option available to us we must have Ballot Issue No. 2 approved. Mark addressed the subject of current interest rates commercially available versus the low rate government funds that are presently available to us through the USDA/RD program.

Mark went on to address the timing of the vote. The Board has been criticized for moving too fast. The Board is not trying to push it through and in fact, has provided a full 6 weeks in advance of the vote to address Members' questions and concerns. There was a concern about individual Board Members' influence as it pertains to this vote. He reminded Members that each Board Member is also an HMC Member with the right to a personal opinion.

Allen Moren (WPC Member) addressed the Members as a long term HMC Member and past president of the HMC Board of Directors. He has been involved with the water upgrade project for many years. He stated he was present at the WPC meeting when it was made known that USDA Stimulus money was available. Regarding Ballot Issue No. 2, he felt that the Board should have been more specific on the exact expenditures anticipated instead of appearing to request a blank check. The Ballot was published on March 23rd. Prior to this at the earlier Board meeting, he had asked to review any ballot before it went out to the Membership. This did not happen. (Ed. Note: The ballot was reviewed by the WPC Committee Chairman). Regarding Ballot Issue No. 3, he did not believe it was clear and did not provide a side by side analysis of the old language versus the new. He felt that a 40 year loan would be more risky in light of an ever shrinking assessable unit base and the fact that the budget needs to be approved annually.

Mark Anderson stood to address some of the Allen's concerns. Regarding the blank check, much new information has come forward since the ballot went out to the Membership. The Board has the specific fiduciary responsibility to manage Island resources properly and to protect the interests of the Membership. This includes prudent management of monies held in Reserve - under no circumstances would HMC be spending more as a result of this vote than is available in the Reserves. With regard to the 40 year repayment issue, the noted concerns will still exist regardless of whether we ultimately release or retain the system.

Todd Krause (Engineer, NW Water Systems) stood to address a question from the attendees concerning how the Members will be assessed by meter. If a Member chooses to have more than one meter on their property that would be considered a new assessable unit for the purpose of water financing.

A Member asked for a project timeline to aid in advising the Members of the totality of the project. Allen Moren indicated that the project is a sequential process that occurs over time based on milestones that occur. Each progressive phase will detail out the minutia as it occurs but there is no way to define every detail at this time.

George Newcomb stood to give a little history of the water system because he has been here since the island was originally platted and sold. He strongly encouraged the Members not to give away our water system to a third party.

General discussion followed about the method of assessing.

Todd addressed a question from the attendees. What is the value of our water system? One way to determine this is to look at the value of the capital improvements. And at this point given the condition of our water system, they have a negative value. The wells and water tank would have positive value. Considering this, the asset value would be approximately \$750 per assessable unit. What is it ultimately worth? Whatever someone is willing to pay for it. Do our pipes need to be replaced? Yes.

Pat Zazzo made a statement relative to Ballot Issue No. 2. She wants to be certain that what we spend should be the absolute minimum required to secure the loan. Todd described the minimum that would be required up front for the loan, but either way the money to be spent is required whichever way the Members ultimately choose to go. The Island Manager stated that until we count the ballots we cannot go further with determining specific costs.

Allen Moren asked if the Board would consider recalling the vote to provide more time for further clarification of the Ballot Issues including the information that has been discussed today. Significant discussion followed on the pros and cons of that approach.

The Board then went into Executive Session to discuss the request. All members of the Board were present for the Executive Session. The resulting decision was reported to the attending Members as follows:

The Board will issue additional information to each Member by mail that further defines the Ballot Issues as they currently exist. The Members will be given the option to revoke or change their vote as a result of this new information if they so choose. The By-Laws permit this and will be cited in the mailing. The Board will not recall the vote. The Membership ballots will still be counted on May 8th, 2010.

Respectfully submitted,

Janet Podell
Secretary