



HMC Management

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: April 13, 2013

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 should be paid with separate checks. 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, (3) Base Fees, and 4) Water Usage Fees.

IV. Water Assessment Billing

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

2. **Operational Billing (Per Connection)**. After an appropriate rate structure is established, the Water Department will charge Members their Water Assessment on the following basis:

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.

For all Connections, the Reserve Contribution, the Base Fee, and (as applicable) the Water Usage Fee will all continue to be charged, even though a Member has prepaid the Capital Cost Recovery.

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. The Water Department will charge fees for locking and unlocking meters. These fees are subject to Membership approval through the annual budget process and are subject to change over time.

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)**. HMC has paid for the Capital Cost of the Water System using a combination of funds received directly from Members and proceeds from a loan from the USDA to HMC. The USDA loan is secured by the assets of HMC, not the assets of individual Members. Individual Members who have chosen to finance their portion of the Capital Costs through HMC (based on the USDA loan) will be obligated to pay a Loan Special Assessment by making payments to HMC during the full term of the USDA loan. If an Assessable Unit is sold, the obligation to make payments for the loan will remain with the property, and will be chargeable to the new Owner. Members who have chosen to finance their portion of the Capital Costs through HMC, but who later wish to “pay off” the balance of their Loan Special Assessment may do so. However, any such payoff will include not only the unpaid balance of the per-Connection proportionate share, but also that Member’s full share amount of the interest that would have otherwise accrued over the life of USDA loan plus their proportionate share of the costs and fees that will be incurred by HMC over the life of that loan.

2. 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.

3. **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.

4. **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, 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 amount according to the HMC Fee Schedule then in effect. This Connection Fee and Capital Cost Recovery amount must be paid in full to HMC Management, and the Connection completed, within ninety (90) days of closing. 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.

5. **HMC Owned Parcels.** Metered connections are installed at the North Beach Park, Goodpastor Park (the Community Center and Office), the Ferry Dock (Island Side), the Community Garden 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.

6. **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.

7. **When a Member Sells Their Property.** If a Member sells a 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.

This Policy is effective immediately and supersedes the Herron Island Water Department Financial Policy dated June 9, 2012.

Recommended:



Chair, Water Committee 04/13/13
Date

Approved:



President, Board of Directors 04/13/13
Date