



# ***HMC Management***

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## POLICY

**Subject: Herron Island Water Department Financial Policy**

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

The Herron Island Water Department (Water Department) is 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 shall be paid separately. One payment shall 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 are 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. The allocation of costs in the budget for the Water Department is based upon the number of Member Connections minus those Connections projected as delinquencies.

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

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

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

Herron Island Rules (June 2013), Section III – Rules, Part 1 – Water and Sanitation

Herron Island Management, Herron Island Water Department, Administrative and Operational Rules (February 2019)

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

A. **Quarterly Base Fee Billing (Per Assessable Unit)**. With construction of the new water distribution system complete, a rate structure was established and the Water Department charges Members a rate voted on by the membership annually, which is billed quarterly. This base fee covers operations, maintenance, and reserves. In addition to the base fee, Members are charged water usage fees if their water usage exceeds 150 Average Gallons Per Day (AGD). Tier 1 ranges from 151 AGD to 400 AGD. Tier 2 ranges from 401 AGD to 800 AGD. Tier 3 is 801 AGD and above.

B. **Operational Billing (Per Connection)**. An appropriate rate structure was established and Members pay individual capital costs in full. The Water Department applies payments:

**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.**

C. **To Avoid Water Usage Billing**. If there is no water use in addition to the base fee, 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 by the Water Department. (There was no charge if a Connection was placed in inactive status before August 1, 2012. Beginning on August 1, 2012, fees are charged for locking and unlocking water meters).

D. **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 by the 25<sup>th</sup> of the month in which the Water Assessment is billed. Interest will be applied on any balance that is more than 30 days past due at the same rate as the HMC General Assessment. Payments are considered late if not postmarked by the 25<sup>th</sup> of the month. HMC's Delinquent Assessment Collection Policy applies to late payments.

E. In a rare instance, a Member may experience an unexpected and unknown catastrophic water loss resulting from a burst water pipe or similar malfunction. The result could be a very high water bill. In such an event, the Water Committee has the authority and may decide on a case by case basis to recommend to the HMC Board of Directors that the bill be reduced.

F. Water meter cover for driveway: On a case-by-case basis the Water Committee will evaluate the circumstances of a Member needing a water meter cover upgrade. If it is determined that no change has been made to the driveway and an improper water meter cover

was originally installed, the correct replacement will be made at no charge to the Member. If a Member chooses to change the driveway and therefore needs a more substantial water meter cover, the Member shall purchase the correct cover from the Water Department.

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

A. **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 water system construction and project costs were known and finalized, HMC offered Members two choices for payment of their portion of construction costs. Members could 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 was recorded in the HMC Office with the property Connection address. Individual Members who chose to finance their portion of the Capital Costs through HMC are 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 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 paid in full before its 40-year term, if financing Members agree to simultaneously pay HMC for the total remaining loan balance; HMC would then be able to pay off the USDA loan in full.

B. **Non-Payment of Water Assessment Bill**. All Members are responsible for the costs to sustain the Herron Island Water Department for the benefit of the entire community. The Water Assessment covers cost elements that replenish the water reserves, provide water testing, service, updates 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. Each year when the annual Water Department Budget is established, the Base Fee 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 Connections used for that year.

C. **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 chose to pay up-front or participate in the USDA-HMC loan. **[Note – this section applies to Members that chose to participate in the loan process prior to August 01, 2012. Members do not have the option to participate in the loan process after August 01, 2012.]**

D. **HMC Owned Parcels.** HMC Lots have metered connections, 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 Connections for cost distribution, because they are owned by HMC for the benefit of all Members.

E. **If Fees Do Not Cover Operational Costs.** If the base fees and water usage fees do not cover the operational costs because of water system cost increases or reduced water usage, the base fee and/or tiered rates will have to change in the next budget cycle 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 are 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 adjust to cover any long-term trends in cost.

F. **When a Member Sells Their Property.** When a Member sells a lot 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 Administrative Code 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 CCCP, the Herron Island Water Department maintains 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 a hot tub, closed fire protection system, pool and/or in ground sprinkling system are required to install a certified backflow prevention device, register it with the Herron Island Water Department and have it inspected annually.

This policy supersedes all previous policies on this topic.

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President, HMC Board of Directors

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Date