

HMC Assessment Options

Finance Committee

October 12, 2002

Briefing Outline

- Situation
 - What brought us to this point?
- Goals
 - What do we hope to accomplish?
- Issues
 - What factors determine our options?
- Options
 - What plans should we put up for vote?

Situation

- Bylaws have been in the process of revision for four years
- Extreme disagreement exists among members on assessment method
- Advisory vote planned in November 2002 to decide assessment method
- Vote to amend bylaws is planned for Spring 2003

Assessment Proposal Goals

- Establish assessment approach fair to all
- Maximize acceptability and stability
- Establish legally sound approach
- Put arguments behind us

Issues

- What factors determine our options?
 - Demographics
 - Assessment income allocation
 - Facilities usage
 - Membership erosion
 - Legal issues

Demographics

- How is our population distributed?
 - 246 single lots
 - 268 multiple-lot-owner lots
 - 106 multiple-lot owners
 - 354 members in good standing
 - 12 delinquents
 - 27 HMC lots
 - 3 Pierce County lots
 - 261 lots with houses
 - 253 lots with no houses

Assessment Income Allocation

- Where does our \$896 go?
 - 50% - Ferry Operations
 - 36% - Administration
 - 5% - Water
 - 4% - Roads
 - 3% - Ferry Docks
 - 2% - Parks

Usage Considerations

Assessment Distribution

- 50% - Ferry Operations
- 36% - Administration
- 5% - Water
- 4% - Roads
- 3% - Ferry Docks
- 2% - Parks

• Who makes the most use of the facilities?

- Multiple-lot owners?
- Full-time residents?
- Commuters?
- Extended families?
- Large vehicle owners?
- House owners?

Membership Erosion

- 554 lots in original Herron Island plat
- 354 current members in good standing
- 12 delinquent members
- 30 HMC and county lots
- Under a one assessment per lot plan, the individual assessment would be \$620 rather than \$896
 - 42 lots subtracted from original 554 for calculation

What can we conclude so far?

- Increased usage of facilities not correlated to multiple-lot ownership
- Multiple-lot ownership has caused a 45% increase in individual assessments
- Issue: Should multiple-lot owners be required to pay multiple assessments because of membership erosion?

Legal Issues

- Assessment method must not violate
 - Federal or State Constitutions
 - State or Federal codes
 - HMC Articles of Incorporation
 - HMC Bylaws

Legal Questions

- Do we have to appeal any past ruling against HMC?
- What would be the cost of the appeal?
- What was the basis of the 1987 ruling against HMC?
- How would a member combining lots into a single building site restrict a multiple assessment plan?
- What would subdividing a single building site into multiple saleable units involve?

Plans Considered

- Plan 1 – One assessment per member (current method)
- Plan 2 – One assessment per lot
- Plan 3 – One assessment per contiguous parcel
- Plan 4 – One contiguous lot allowed per member
- Plan 5 – Tiered plan. Additional house = one assessment, additional non-house lot = 0.5 assessment.
- Plan 6 – Weighted assessments (attorney proposal)
- Plan 7 – Assessed Value
- All plans assume one vote per assessment

Plan 1 (Baseline)

- One assessment per member (current method)
- Consistent with current Articles of Incorporation and Bylaws
- Tested and upheld in court
- Declining membership causing higher assessment per member
- Allows unlimited rental and investment properties
- \$896 annual assessment for all members

Plan 2

- One assessment per lot
- Most common method used by other associations
- Not consistent with current Articles of Incorporation or Bylaws
- Demographics indicate method would not last if adopted (next chart)
- Maximum assessment: \$4,296
- One assessment: \$614

Demographics of Plan 2

- Current distribution of 246 single-lot owners to 106 multiple-lot owners indicate high probability plan would be passed
- Under one vote per assessment, new distribution would be 268 multiple-lot owner votes to 246 single-lot owner votes
- New majority could force change in bylaws, resulting in unstable, constantly changing assessment methods

Plan 3

- One assessment per contiguous parcel
- Addresses merging of lots into single building sites
- Reduces grounds of court challenges
- Accounts for rental and investment issues
- Maximum assessment: \$4,053
- One assessment: \$811
- Demographics: 328 single assessments, 60 multiple assessments

Plan 4

- One contiguous, non-house lot allowed per member
- Allows one additional lot to be used for yard space or drainfield with no increase in assessment
- Does not address potential legal problems from multiple assessments for single building sites
- Maximum assessment: \$4,458
- One assessment: \$743
- Demographics: 309 single assessments, 117 multiple assessments

Plan 5

- Tiered plan
- Each member pays one assessment for primary lot
- One additional assessment for each additional house
- One-half additional assessment for each additional non-house lot
- Maximum Assessment: \$2,864
- One assessment: \$716
- Demographics: 252 single assessments, 183 multiple assessments

Plan 6

- Weighted assessment proposed by our attorney
- Weighted 1.0 for house, 0.7 for lot with non-house structure, 0.25 for undevelopable lot
- Would be difficult to verify and administer
- Does not address single building site issue
- Single assessment would increase from current plan
- Maximum assessment: \$3,152
- One assessment: \$914
- Demographics: 212 single or fractional assessments, 134 multiple assessments

Plan 7

- Assessed value
- Based on county tax assessor's public records
- Does not address erosion of membership
- Owner of multiple lower-valued lots would pay less than under current plan
- Maximum HMC assessment: \$4,595
- Assessed value of \$94,000 would result in baseline \$896 HMC assessment

Summary of Plans Considered

| PLAN | MAXIMUM | BASELINE (1 PARCEL, 1 HOUSE) | MINIMUM (0.33 LOT) |
|------------------------------------------------|---------|---------------------------------------|-----------------------|
| Plan 1 – One assessment per member | \$896 | \$896 | \$896 |
| Plan 2 – One assessment per lot | \$4,296 | \$614 | \$203 |
| Plan 3 – One assessment per contiguous parcel | \$4,053 | \$811 | \$268 |
| Plan 4 – One additional contiguous lot allowed | \$4,458 | \$743 | \$245 |
| Plan 5 – Tiered plan | \$2,864 | \$716 | \$716 |
| Plan 6 – Weighted assessments | \$3,152 | \$914 | \$76 |
| Plan 7 – Assessed value | \$4,595 | Assessed value of \$94,000 pays \$896 | \$10 |

Where do we go from here?

- Board will receive email and postal comments up to November 9th meeting
- Legal questions will be answered prior to ballot definition
- Board will choose items to go on advisory ballot on November 9th
- Ballot will be mailed with November Beachcomber
- Results of advisory ballot will be included in amended bylaws to be voted on next spring