



HMC Management

September 10, 2011

Dear HMC Member:

The Herron Island Water System replacement and upgrade (the “Water Project”) is the biggest infrastructure project ever undertaken by HMC, and we want to do our very best to get it right and keep costs down. Part of that commitment includes sharing information with you about how the system will serve your property and what you can expect during the construction process.

What Has Happened So Far?

HMC Members determined that we needed to replace the system, and then voted to replace the system. HMC Members were given an option to retain ownership of the system or to transfer ownership of the system to a third party; HMC Members voted to retain ownership of the system and to obtain a loan for the replacement and upgrade. Based on a vote of the HMC Membership, we applied for a low-interest loan program through the USDA. HMC engaged professional engineers for the preliminary engineering and for development of bid documents for construction of the Water Project.

What’s Happening Now?

Our engineers at Northwest Water Systems are working hard on the bid documents, which will be scrutinized by the USDA as a part of the loan application process. We have already obtained a revised system design that has been approved by the State Department of Health. Other required documents are in the works through the island attorney and other parties. We hope to put the Water Project out for bid in late September/early October. As soon as a Contractor is selected and approved by the USDA, we expect that the system will be constructed during the upcoming winter months. That should minimize disruption for most Members, who are not fulltime residents.

Over the next several months, we expect that the USDA and federal agencies with which it works will make periodic visits to Herron Island to review progress on the Water Project.

On the administrative side, we are forming the Herron Island Water Utility. To be tax exempt, the IRS requires that this be formed as a non-profit entity separate from HMC Management. Creation of the Herron Island Water Utility will essentially create two “memberships” for HMC Members, who will be Members in both HMC Management and in the Herron Island Water Utility. The Herron Island Water Utility will have its own Articles of Incorporation and Bylaws, and is expected to be governed by the same Board as HMC Management. Because the creation of the Herron Island Water Utility needs to be approved by the Members, this will go out for a vote of the Membership at a special meeting to be called in November.

What’s Being Replaced?

Pumps, hydrants, pipes, and valves are all being replaced, we are not replacing the actual wells. Hydrants will be installed every 700 feet and, in many areas, perhaps a little closer. This will provide far better access to water for fire flow. Our pumps will be replaced and upgraded to

provide greater reliability and pressure, and service meters will be installed for every water connection.

How Much Will I Pay for My Water?

For the first year, beginning October 1, 2011, Members will all pay a flat rate of \$20 per month for water, according to the most recently approved annual budget. After the system is completed and has been accepted by USDA, we will be able to monitor meters and operating costs, know the final installation costs and should be able to set rates for future years based on actual data we obtain. Future water charges will be comprised of three elements: 1) a basic charge to support overall operations and maintenance, 2) a charge based on individual consumption, and 3) for some Members, a charge for repayment of the USDA loan (discussed below). Delinquencies in paying the water bill will be treated the same as other HMC delinquencies.

How Will I Be Billed For My Water?

During the 2011-2012 budget year, water will be billed quarterly, at the flat rate of \$20 per month, or \$60 per quarter. This flat rate includes basic operation costs, an allowance for reserves and water consumption.

How Do I Pay For My Part of the Water Project?

Once the total costs of the Water Project are known, we can then tell you what the cost will be for each connection. At that point, Members will be given two options to pay for their part of the Water Project. A Member may either 1) pay their individual portion of the construction costs up front (i.e., "prepay"), or 2) have their obligations included in the balance of the USDA loan to be repaid over 40 years.

Members who choose to prepay in full, and not participate in the USDA loan, will have a relatively brief window of time (expected to be roughly 30 days) during which they may make that prepayment. In any event, these Members must make their payment in full to HMC before HMC begins to repay the USDA loan. If a Member prepays, this will reduce the amount that HMC has to borrow under the USDA loan, benefitting the HMC Membership as a whole.

If a Member does not prepay in full, their portion of the cost of the Water Project will automatically be included in the amount that HMC borrows under the USDA loan. In essence, each of these Members will be financing their portion over a period of 40 years, with no further meaningful opportunity for prepayment. These Members will be required to make recurring payments to HMC as a part of financing the Water Project.

For illustration, let's say the cost per connection for the Water Project is \$6,500. If you did not prepay, but elected to finance this \$6,500 (over 40 years at 3.375%), you would be making payments amounting to \$24.70 per month. Over the next 40 years, then, your payments would total \$11,853.81 - of this, \$5,353.81 would be for interest. Even if you chose in the future to pay this off early, you would still be required to pay the same amount as if you had continued to make the payments for the 40 year life of the USDA loan.

How Will I Know When I Can Prepay the Loan?

HMC will attempt to communicate with you through the Beachcomber, letters, HMC website, and e-mail notices. If you have not added your name to the e-mail notification list and wish to do so,

please email the HMC Office Manager at office@herronisland.org. Currently only one in three Members has signed up. The list will be used only for business purposes, and will also be a means to notify you about service outages, road closures, and any other water system replacement schedule issues, as well as other island emergencies.

Where Will the Water Line Be Installed?

The water lines will typically go in on one side or the other of HMC roadways. Members need to be aware of their actual property lines. HMC roadways are actually much wider than the graded road surface; most roadways are 50 feet wide, but this width can vary between 40 and 60 feet. Roadways will be surveyed and edges marked prior to construction. If Members have landscaping or other improvements encroaching on the HMC roadway, these may have to be removed prior to construction.

*Where Will My Service Meter Be Located? ***

We plan to have the Contractor install service meters near the edge of each property serviced, in the same location as the current water service. You may, however, wish to have your service meter in a different place. In that case, you must notify HMC in writing of the location where you want your service meter placed. If you choose to have your service meter moved more than a few feet from its current location, it will be your responsibility to install a new water line from the water meter/valve location to your home. The Contractor will only be required to hookup to your existing water line or to make a small adjustment, at your request – let us know before September 30, 2011.

If you have contiguous lots, and want more than one service meter, you must notify HMC no later than September 30, 2011. Change orders during construction will result in additional cost and any such additional costs will be passed on to the requesting Member.

*Is There Anything I Need to Do Prior to Connecting the New Water System to My Property?****

Yes. For most Members, the water will be supplied for regular plumbing uses (sinks, faucets, toilets). However, if your water line will be connected to anything other than “regular plumbing,” you will likely need to install a backflow preventer on those systems. Examples of where backflow preventers will be required include landscape irrigation, hot tubs or spas, and pools – essentially any system where a chance exists that water could flow back into the island water system from your property. Prior to receiving water from the new water system, Members will be required to sign a certification that they either 1) do not have any such systems, or 2) that they have backflow preventers installed for those systems.

How Long Will My Water Service Be Disrupted During Construction?

We will be giving instructions to the Contractor to manage the water “outages” that can be expected. Any planned disruption will depend on the day of week and the weather. We hope to limit disruption of water service to any individual property to periods of no more than 24 hours at a time.

*What Will Happen to All That Dirt? ***

There will be many yards of fill dirt to be disposed of, and if you would like to have some dirt dumped on your property (and are not a designated wetland), please let the HMC Office know. You

are allowed to dump up to 40 cubic yards without a County permit. Add your name to the list of those who would like to take some of the excavated soil.

Will My Homeowner's Insurance Rates Go Down?

This is possible, depending on where your rates have been set. When the system is complete, the insurance rating for the island should improve, perhaps dramatically, due in part to the improved access to fire hydrants. You might want to contact your insurance agent to see if you get a break on your premium.

Will There Be An Impact on Ferry Operations?

The ferry will maintain its regular schedule to serve HMC Members and guests. The Contractor may use the ferry to transport employees and materials, but the scheduling and number of trips will be subject to contract negotiation. It is possible that the Contractor will prefer to barge in materials rather than use the ferry. We do want to do our best to make it possible for them to complete the project quickly.

How Can I Help?

Please respond to the asterisked items above, with an email to the HMC Office at office@herronisland.org or hmcmanager@herronisland.org.

Members will continue to have input into this Project throughout its duration. This can be done through correspondence with the Board, the Island Manager, and/or the Water Project Committee, as well as by attending Board meetings and/or meetings of the WPC. You can also expect to receive periodic letters containing more information about the Project as we move forward.

More questions? Contact us at hmcmanager@herronisland.org or 253-884-9350. We'll also try to keep you updated on the web page, under "Island Water System Upgrade."

Sincerely,

Claudia Ellsworth
Island Manager