

April/May 2013

The purpose of this edition of FAQs is to present marina pay-off scenarios, and address a few questions that have been conveyed to us. Please keep sending questions to HICFAQs@gmail.com.

Question #1: As noted in the last FAQs (March 2013), our loan is expected to total \$2,171,000, amortized over 15-20 years with a lump sum due in 2023. FC considered different scenarios of how HIC could pay off the loan and provided that info to the Board. We are detailing the related assumptions, recommendations, and risks that we considered in projecting different scenarios, so that everyone will have an understanding of the process involved.

IMPORTANT: Please remember that the FC makes recommendations to the Board - WE DO NOT SET POLICY! Our goal is to hash through possibilities, weigh the pros and cons of each, and present what we think are the best alternatives for Board consideration. We presented multiple detailed scenarios to the Board with different assumptions about paying off our loan. To be transparent, the assumptions related to these scenarios are purposefully being shared with you early in the process, so that you can be aware of the loan details and observe/understand what goes into making decisions. The ideas communicated from the FC are not approved as statements of fact until the Board makes its final decisions and/or revenue and expenses are realized. We all know that the payoff assumptions are unlikely to occur exactly as presented below. HIC and the Board will make decisions regarding funding sources and how they will be applied to principal and interest.

HIC's goal is to pay off the loan as efficiently as possible while maintaining financial resources and good cash flow. The sooner we can pay off the loan, the less interest we'll pay, and the better off we'll be. The FC is willing to continue to provide the Board and other committees with any desired number-crunching. The FC intends to report at least every six months on loan progress, so you will know if/when assumptions become facts.

Given the assumptions detailed below, it appears that we can pay off the loan on time in 2023, which reflects the most desirable scenario. We anticipate monthly loan payments of \$16K to \$18K starting after the construction is complete at which time the loan becomes "permanent." The interest rate is 4.67% for the first 5 years with an adjustment starting in the 6th year.

If there is no Puget Sound Yacht Club (PSYC) settlement, the impact could be remaining balance due in 2023 totaling \$400 to \$600 thousand.

And to state the obvious, if major property owners do not pay their scheduled assessments, the impact could be much larger. Total remaining owner assessments due are approximately \$2 million.

Notes/Assumptions:

- a. Marina Assessments. HIC projected collections based on a reduced number of lots (and write-off of known bad debt), a 7% estimated reduction for further bad debt, and agreed upon individual payment schedules. Although the FC believes these adjustments were reasonable, we are looking into the specific A/R details (as described in our 1st FAQs (December 2012), and in Question #3 below. All marina assessments are scheduled to be paid in full in 2023, the year the loan is due.
- b. Expanded Marina Services. The 2013 marina operating budget projects \$35K in net revenue related to the existing marina structure and the FC believes it should continue to be reflected there. As discussed in the March 2013 FAQs (Question #5), our scenarios estimated increased revenue of \$12K per year, related to the new docks. The FC believes this increase revenue should be used to pay down the loan. The Marina Committee needs to assess when and how fees for expanded services could be generated, and the \$12K can be adjusted if needed.

- c. Puget Sound Yacht Club (PSYC). Our engineer computed that PSYC owes 18% of marina expansion expenses, or about \$385,000. For our calculations, we assumed that payment would be made as a lump sum in 2014. Since this is a pending legal issue, we recognize that **this could be more or less, or it could be paid over time instead of in a lump sum**. The Board cannot share additional information without jeopardizing negotiations, and has set up a PSYC Committee to address it in more detail. Thank you for your patience and understanding!
- d. Equipment Purchases. The HIC and the Equipment/Maintenance Committee are looking into the dump truck and dozer purchased for the marina project. One option is to have HIC “buy” them to offset the marina loan while maintaining reasonable capital reserves. Our scenario assumed an internal sale with a total of \$45K paid over a 5 year period against the loan. This will be updated as decisions are made.

Question #2: What is the status of the marina expenses?

Chuck reported at our 5/18 meeting that all final expenses are still on track. As planned, we will provide more detailed quarterly updates.

Question #3: What is the status of the accounts receivable project?

The FC has committed to looking carefully at overall cash flows (operational, capital reserves, and Marina) as part of Barbara Harris’ current work involving the A/R analysis. The idea is to see if there is cash that can be used to pay down the loan more quickly. It appears that we will have recommendations for the Board in May or June. The quicker we can pay down the loan balance, the more interest we’ll save, but we don’t want to be caught short of funding. Barbara has worked many cash flow projections in the course of her career, and her willingness to take this on for us is invaluable!

Question #4: We noticed that the ViewPoint now includes a full balance sheet, profit and loss statement, and cash flow. What’s up with that?

This was done at the suggestion of and in coordination with the FC. We hope you like it! Please note that the assessment income is now being reported on a cash basis starting this year, so monthly amounts are not comparable to 2012. Specifically, each month shows actual monies received, instead of splitting the annual invoiced amount into 12 months. Please let us know if you have any questions about this.

Question #5: Is it a surprise that the ferry does not “turn a profit?”

It is not a surprise that the ferry does not turn a profit. It has always been understood and communicated that the ferry service is subsidized by HIC, i.e., the cost of tickets does not cover the ferry costs. The ferry has always been structured not as a money maker, but to provide a valuable service to the community.

The question of actual costs was asked during the May 2012 Board meeting, and answered in the June 2012 View Point. It was also addressed in greater detail in the December 2009 View Point.

We recognize that looking further into this issue may become more pressing if/when we need the computations to support decisions about replacing the existing ferry. The Board has formed a vessel committee to analyze the situation.

Question #6: What is the status of the Salary Study request by the Board?

Madeline Progner, Jann Kaufmann, and Chuck Motson are moving forward with the salary study plan. Madeline and Jann have obtained all necessary data needed to analyze HIC positions, and are doing the analysis, which will include the determination and prioritization of skill level requirements. The analysis will be followed by identifying appropriate comparison sources, performing analysis to develop equality comparisons, and developing salary/pay scale guidelines (including benefits) based on that analysis.

They estimate that they are 70% complete, and are on track to have the study completed in time to provide the Board with recommendations and use the results as we start creating the 2014 budget.

Question #7: How do I get my questions to the Finance Committee for future editions of the FAQs?

Please continue to send your inquiries to HICFAQs@gmail.com and tell us how to contact you if we don't understand your question. Please do not send any FAQs to our personal or business e-mail addresses. Please note that there is a link to the FAQs email address and all past editions of the FAQs on the HIC website home page under the Document Library.

We will always acknowledge receipt of your questions into the mailbox. If you sent in a question and did not receive a response, please send it to us again.

Via future FAQs, we are still planning to update the status of the marina expenses, the status of the accounts receivable project, and any updates to the loan information at least quarterly. Also, our fearless leader, Cynthia Petrie, is providing updates regarding FC activities at each Board meeting.