

*Welcome to the 10th Edition of Frequently Asked Questions (FAQs) re: HIC Finances*  
**November 2014**

The purpose of this edition of FAQs is to discuss the state of the HIC finances as we come to the end of 2014 and provide you with details regarding the 2015 budget that you will vote on in December. Please send questions to [HICFAQs@gmail.com](mailto:HICFAQs@gmail.com).

**IMPORTANT:** Please remember that the FC makes recommendations to the Board, but 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. 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. For example, HIC and the Board make decisions on funding sources and how they will be applied to Marina loan principal and interest.

**FAQ #1: What is the state of HIC's finances for 2014? We've heard we're out of money – is that correct?**

HIC's finances are slim as we approach the end of the year. As you will recall, we passed what's known as a "breakeven" budget for 2014, which means our anticipated cash income pretty much equaled our anticipated cash outflow for the payment of various expenses. Our current projection indicates that our 2014 operating expenses will exceed our cash receipts by around \$155,000! There are two main reasons for this:

- 1) As of the third quarter 2014, over 300 lots are in arrears on the payment of annual assessments. This is approximately 1/3 of all paying lots. The FC is projecting that we will be around \$100,000 short in anticipated cash receipts by the end of the year assuming this trend continues for the fourth quarter.
- 2) The cost of the Brave Arrow substitute ferry was around \$75,000.

Fortunately, we held over \$130,000 in cash operating reserves going into 2014, which we had not had to touch in over three years. However, those cash reserves are now completely gone for the reasons detailed above.

In addition to depleting our operating cash reserves, we have also been forced to deplete our capital reserves for ferry repairs. We understand the ferry costs in total were \$100,000 to \$110,000. Please note this amount does include maintenance totaling approximately \$25,000 that was already scheduled to occur during a routine haul out in the fall of 2014. We may receive some reimbursement from insurance, but the amount and timing are unclear.

As a result of these two circumstances, our cash in the bank is very low. \$25,000 was borrowed from the RO reserve account this fall to meet our expense needs, including payroll. This amount is on record and will be replaced as soon as possible (see #8 below). No funds have been borrowed from the separate account that holds Marina assessment receipts. However, the \$60,000 of additional principal payments that were included as expense items in the 2014 operating budget did not get made due to lack of funds. See #7 below for further details regarding the status of the Marina loan.

**FAQ #2: How will we replenish our reserves and continue the operations of the HIC?**

You will receive a ballot in the mail shortly (or you have already!) that will ask you to approve two separate requests:

1. **The operating budget for 2015.** This budget includes an annual assessment at \$472 per lot, which is *unchanged* from the 2014 annual assessment, and assumes that 6.3% of lots will be uncollectible in 2015. This percentage is based on historical percentages, not the current 2014 situation in which 30%+ of lots are not paying. The operating budget reflects some increases to fee for service income and some decreases to expenses, as management and various committees believe can be reasonable supported. Your ballot will detail the various changes over 2014 amounts. The operating budget does NOT include

any funds to replenish capital reserves and it does NOT include any funds for required ferry maintenance/updates/repairs for 2015.

2. **A special assessment of \$300/lot for 2015.** This assessment is designed to start the replenishment of our operating cash reserves (\$60,000) and our capital reserves (\$126,300) and pay for required ferry repairs/maintenance (\$75,000). These ferry expenses are based on the most recent insurance survey, upcoming Coast Guard requirements, etc. This budget also assumes that 6.3% of lots will be uncollectible.

**FAQ #3: If the current non-payment rate is 30%+, why is the budget based on a 6.3% non-payment rate?**

The Board is working with the HIC attorneys to resolve the current situation and believe that the uncollectible rate will revert to historical norms in 2015. *The FC has advised the Board and the HIC at the last two meetings that a continuing non-payment rate of 30%+ will create the need to request an additional special assessment in May/June 2015.*

**FAQ #4: Why a special assessment? We need to replenish reserves, so why not just propose an increase to the annual assessments?**

There are two reasons for proposing an operating budget that includes no change to the annual assessment combined with a special assessment.

1. The special assessment is specifically intended to replenish reserves. Hopefully, we can use this type of assessment vehicle this year (*and most likely in one or more future years – you heard it at the last two meetings and you’re hearing it again now!*) to bring those reserves back to functional and reasonable levels. HIC members at the two meetings in November voiced concern that it is difficult to decrease annual assessments once they have been raised to fix what we hope will be a *relatively* short term problem. Thus, the FC changed its initial proposal to increase annual assessments to \$772/year in favor of retaining annual assessments at \$472/year and adding a special assessment of \$300/year.
2. There was a court case that originated with the Sudden Valley HOA in Bellingham that dealt with the legal method of voting for increases to annual assessments that are included as part of an annual budget. Previous to this case, HOAs typically considered that a simple majority of ballots cast determined whether such an assessment increase and budget passed or not. *The Appeals Court determined that a simple majority of all eligible voters, whether they actually voted or not, must pass such an assessment increase.* Since this particular Appeals Court decision sets precedent for our Snohomish County location, our attorney has recommended and the Board and FC agree that we follow the decision at this time. The case is going to the WA Supreme Court, so we will have clarity at some point. Based on historical voting records, we seldom (if ever!) have had a voter turnout high enough to meet the simple majority of all eligible voters rule (i.e., approximately 300 to 350 total votes required). Thus, the Board determined that the special assessment route makes more sense for HIC, since it is clear under our By-Laws and WA state law that a simple majority of only the votes cast is required to pass a special assessment.

**FAQ #5: Is the car fee that was new in 2014 included in the 2015 budget?**

Yes, it is, again at \$125/car. Let’s review a bit of history on the car fee. In the fall of 2013, the Long Range Planning Committee came to the FC and recommended that the budget include a vehicle fee. The recommendation was made for two reasons: 1) The resulting income would help offset the ongoing costs of maintaining our gravel roads and 2) the committee was searching for ways to have those people who use Hat regularly assume more of the financial burden of maintaining our special island. As of Monday, 11/24, there were outstanding unpaid invoices of \$2,615 in car fees, which equates to around 20 cars. Collections in 2014 have exceeded \$30,000, so this item is an integral part of our overall budget.

**FAQ #6: Speaking of having those who use the Island the most pay more – why can't we have different levels of assessments?**

The FC has inquired every year as to the viability of having different levels of assessments based on specific factors. An example would be to have one assessment level for raw land and a higher level for lots with improvements. Related discussions have ensued around using county property values to set assessment levels. *However, at this time, our By-Laws preclude us from setting different assessment levels for different lots unless the lot owners who pay more also receive additional benefits in exchange for the additional assessments paid.* Therefore, the FC's collective hands have been tied with regard to making such a proposal, and the FC's scope of responsibility does not extend to considering changes to our By-Laws. Board member Scott Holte is in the process of forming a Governance Committee to discuss this exact issue and propose possible changes to our By-Laws that would allow us to approve and implement a different assessment structure. If you would like to be part of the committee, please contact Scott.

**FAQ #7: Where do we stand with the Marina loan? Have we been able to pay additional principal, as planned? Are outstanding Marina assessments continuing to be paid?**

Our Marina loan balance was approximately \$1,890 million at the beginning of 2014. We collected around \$330,000 in marina assessments and paid \$176,991 in monthly payments (\$14,750/month) plus additional principal from those collections of \$151,000. We project an ending balance in the bank reserve account of around \$68,000. The assessments have come in more quickly than we anticipated – we had projected assessment collections of around \$305,000 in 2014 vs the \$330,000 actually received. However, we also anticipated paying an additional \$60,000 towards the loan from operating cash, but that did not happen due to the circumstances detailed above. We also are unable to recommend the payment of additional principal in the 2015 budget, since we believe our first priority must be to replenish our reserves. At this time, we are projecting a shortfall by the end of 2015 of approximately \$110,000 in principal payments needed to stay on track to reach a \$500,000 loan balance at the end of 2018. This issue will need to be addressed next year, so stay tuned.

**FAQ #8: We have significant past due receivables from unpaid assessments and various fees billed in 2014 and prior years. Assuming those funds are collected, how will that money be used?**

As detailed at the last Board meeting, the FC proposes that the collections of receivables from years 2014 and prior be used as follows:

1. First, to increase operating cash reserves to \$150,000
2. Second, to increase capital reserves to \$200,000
3. Third, to pay back the loan from the RO reserves -- \$25,000
4. Fourth, to pay additional principal towards the Marina debt

**FAQ #9: How do I get my questions to you so they can be addressed in future editions of the FAQs?**

Please send your inquiries to [HICFAQs@gmail.com](mailto:HICFAQs@gmail.com), and be sure to tell us how to contact you if we don't understand your question. Please do NOT send any FAQ requests to any of our personal or business e-mail addresses.