

PINE MEADOW MUTUAL WATER COMPANY
BOARD OF TRUSTEES ANNUAL WATER MEETING
THURSDAY, NOVEMBER 8, 2012
KIMBALL JUNCTION LIBRARY
SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick-President, Cal Cragun-Treasurer, Bill George-Secretary, Hutch Foster–Board Members

Excused: Kelly Cox

Ex Officio: Brody Blonquist–Water System Manager, Trevor Townsend, Carol Steedman, KGC Associates.

President Cylvick opened the Annual Meeting at 6:30 p.m. Mr. Cylvick introduced the Board members, Brody Blonquist, Trevor Townsend, and Carol Steedman, with KGC Associates, who is the contract bookkeeper and administrative assistant for the Water Company. Hutch Foster represented the Owners Association.

Mr. Cylvick stated that he has been President of the Water Company for the past 12 years. He explained that the Pine Meadow Ranch Owners Association has a seat on the five member Water Board. The Board is required to have at least two full-time residents and two part-time residents. However, due to unsuccessful efforts to find interested full-time residents to run for the position, Mr. Cylvick was the only full-time Board Member. Cal Cragun, Bill George and Kelly Cox were part-time residents.

Minutes – 2011 Annual Meeting

Debra Rakes, Lot D-37, referred to the last page of the Fee Schedule and noted that the minutes reflected that the Board had reviewed the standard fees and that the only change was to the standby fee and the annexation fee. Ms. Rakes pointed out that the base metered water fee was also increased. She asked if the minutes should be corrected to reflect that increase.

Carol Steadman explained that the increase was actually through the standby fee and that the water portion is an addition. That was the reason for noting it as a standby fee only. Every year the annexation fee increases by the standby fee. She pointed out that it was completely separate from the metered water.

Ms. Rakes asked if the statement regarding the difference should be included in the minutes. Carol explained that the reason it was ratified through a motion was to give the Board the ability to increase the annexation fee based on the standby fee. The only change was to increase the annexation fee by one year of standby fee.

Mr. Cylvick clarified that the annexation fee is based on how many years the shareholders on the Ranch have been paying dues. He provided an example to explain

the formula.

Ms. Rakes stated that if \$496 of the base metered fee is the standby fee, she was unsure why the minutes would not include the difference in amounts. Carol explained that \$712.48 was the fee for a water connection, and that amount did not change. The \$496.16 was the amount that changed as it relates to the annexation fee.

To address Ms. Rakes' question, Carol suggested revising the language to say that the change was to the annexation fee based on the current standby fee. Mr. Rakes stated that she was still unclear. Carol stated that the base rate is \$496.16. Any property with a water connection has another base amount of \$712.48; however, that was completely unrelated to the annexation fee. Carol remarked that the 4% increase occurred in 2010, but the particular reference in the 2011 minutes relates to the annexation fee.

Mr. Cylvick noted that the annexation fee increases annually and the members would be voting again this year for the increase.

MOTION: Cal Cragun made a motion to APPROVE the Minutes of November 10, 2011 with the revision to page 7 of the Minutes under Fee Schedule to indicate that the only change was to the annexation fee based on the current standby. Bill George seconded the motion.

VOTE: The motion passed unanimously.

Financials – 2012 Budget Review

Mr. Cylvick noted that the 2011 Budget versus Actual statement was included in the packet for information purposes only. He did not intend to review it with the members unless someone had a question.

Mr. Cylvick presented the 2012 Budget. The first column was the Actual from January 1st to November 7th 2012. The middle column was the budgeted amount for 2012. The third column was the proposed budget for 2013.

Tom Deaver, Lot E-71-A, noted that the "finance charge income" was budgeted at \$14,000, and it appeared they were \$10,000 short. Carol believed it was because they had not yet collected some of the larger outstanding collection accounts. Mr. Deaver commended the water Company for their accuracy in budgeting for the 2012 metered water assessment. Mr. Cylvick remarked that offering more payment options made it easier for people to pay.

Carol noted that the Water System Manager, Brody Blonquist, brought to her attention the necessity to add \$300 to Equipment Rental to make sure it was a budgeted item. The new total would be a loss of \$11,313.92.

Mr. Cylvick noted that the interest and principle on the loan was increased by \$24,000. He assumed the increase was due to the \$375,000 project going down to Oil Well. Carol replied that the principle and interest payment was \$12,800 per month. She noted that \$19,000 was the first payment on the new loan to cover the \$500,000 draw that was taken last year.

A member asked if the variable expenses could be used to offset the \$11,000 deficit. Carol noted that most of the expenses, such as power, would be increased due to the new pump houses.

Stan Schar, Lot C-70, a part-time resident, thought the water fees were horrendous. He believed the reason for the horrendous fees was due to the full-time residents who want to run the Ranch like a Salt Lake City subdivision. When he purchased his property he thought it would be a nice place to get away. Mr. Schar proposed that those who choose to live on the Ranch year-round and have caused the rate to increase, be charged more than the part-timers. He thought that could be easily accomplished through the meter readings. He had not been opposed to paying the full increase for the fire hydrants and infrastructure because he thought it was a one-time expenditure. However, following that was an influx of full-time residents who impact the rates for everyone and who need to pay for what they use year-round.

Mr. Cylvick informed Mr. Schar that the full-timers already pay double what the part-timers pay. Mr. Schar replied that if they already pay double then they should pay triple. Brody Blonquist explained that the current status of the Pine Meadow Water system was primarily driven by the State of Utah. After exceeding a certain number of connections they were required by the State of Utah to become a community water system. The law does not stipulate a difference between full-time or part-time connections. It is based on the number of total connections. Mr. Schar pointed out that there is no governing or oversight by the Public Service Commission because the Water Company is a non-profit. The Water Board is the only governing body that can change the way the fee is allocated. He understood the rule that Brody cited, but it had nothing to do with the idea that the full-timers needed to pay for 9 months more than the part-timers.

Mr. Deaver stated that regardless of whether people use their property one night a year or 365 nights a year the water is available. If the full-timers exceed their base limit, there is a punitive pricing structure and the more water they use the more it costs per gallon. Mr. Deaver noted that the Water Board has spent a significant amount of money looking for water and they have been approached by professional water companies. If they were serviced by a professional water company they would see their fees triple overnight. Mr. Deaver stated that each lot owner has the choice of how much water they use, but everyone has to pay for it. It is the same with the roads. Everyone uses it and everyone has to pay. Mr. Deaver commented on homeowner insurance issues that also supported the need for the current water system.

A member suggested that they charge for usage based off of the meter and eliminate the 15,000 gallon block. He stated that people who rarely use their property should have a smaller bill than people who live there year-round; however, that is not the case with the current rate structure. The structure only penalizes those who exceed 15,000 gallons.

Mr. Cylvick explained that the Water Company has a standby and a metered water assessment. When George Sears was President of the Water Company in 1999, the answer to this problem was to have such a high punitive fee that someone using 30,000 gallons would pay double what someone using the base amount would pay. Mr. Cylvick noted that at that time Paul Allen did a study on part-time and full-time owners and discovered that many of the part-time residents actually used more water than some of the full-time residents. Mr. Sears agreed with what Mr. Cylvick said about the study; however, overall, the part-timers used less than the full-timers on an annual basis. Mr. Sears pointed out that another issue at the time was leakage. Some people had leaks that were very costly to the owner.

Mr. Cylvick stated that everyone was welcome to run for the Board if they wanted to make an effort to change the current policy. He noted that Mr. Sears was not a full-time resident and the solution that came up at the time was to charge a significant amount for every 1,000 gallons in excess of the base amount. The rate increases substantially for every 10,000 gallons. Mr. Cylvick stated that as a full-time resident he personally uses approximately 27,000 gallons and pays \$1300 per year for water. He pointed out that there are associated expenses when the Water Company is looking for a new source, drilling a new well and trying to improve the system. As a Board they determined that the only solution was to give people more water and the base rate was increased to 15,000 gallons. Mr. Cylvick stated that at least 25% of the part-timers typically use that base amount.

A member asked if he could purchase water from his neighbor if he used up his 15,000 gallons but his neighbor was significantly under. Brody replied that the Bylaws and the Rules and Regulations prohibit selling water. The penalty is a \$500 fine. Mr. Cylvick explained that the Bylaws and the Rules and Regulations were established by the attorneys and the HOA when the Special Service District was split. Ms. Rakes remarked that the Boards and the attorneys could amend the Bylaws. Brody stated that the Water Company already sells water to its customers and it could not be sold again.

Mr. Sears clarified that the Water Company is the only one who has the right to sell the water. However, the shareholders are the owners of the Water Company and they attend these meetings to help make decisions. Mr. Sears pointed out that out of 800+ plus lots, very few owners attend the annual meeting. Mr. Sears commented on two necessary elements required to make a major change. One is that a certain number of owners would need to be informed and they would have to agree to the change. The second element is the legal aspect. When the Water Company was formed it was formed to be very specific. There is very little leeway for making modifications without

going back to the County and taking legal steps for structure changes. Ms. Rakes agreed but she believed it was doable. Mr. Sears recognized that it was doable, but he wanted everyone to understand that it was not a simple process.

Mr. Deaver understood that the financing on both loans was based on the current fee structure. Mr. Cylvick clarified that the structure would not change unless those in opposition joined the Board and tried to change it. Carol explained that Weber Basin Water continues to raise their rates and that is part of the difference between the \$496 base fee for a standard lot with no water and a lot with a meter connection. The Water Company has to pay \$44,000 per year for the leased shares. Carol noted that due to lobbying efforts, the Water Company no longer has to pay property taxes at \$32,000 per year. They can use that money to pay the loans on the debt instead of raising the rates.

The Board and the members talked about ways to increase the revenue to keep the rates the same as last year. Carol stated that they need to make a greater effort to collect on delinquent owners who have not paid for years.

A member asked if there was an attorney on the Board. He was told that there was not an attorney on the Board but that the Water Company has an attorney. The member suggested that they have an attorney place liens on delinquent properties. Carol replied that the Water Company was already placing liens. She explained that the Water Company utilizes a collection agency, Revenue Recovery, which is why income received was at 90%. Carol stated that Revenue Recovery's fee is paid by the delinquent property owner and not the shareholders. Mr. Cylvick noted that several years ago the Water Company started foreclosing on water shares and assigning the accounts to collections. Approximately ten lots have been turned into dry lots and the meters were removed. If the owner wants to join the Water Company and the HOA again, they have to buy back their share, annex into the water company, and pay for the meter installation and all fees. Mr. Cylvick explained that when a water share is foreclosed, the lot has no access to water and the Water Company files a Notice of Unpaid Assessment with Summit County.

A member noted that an item in the budget had increased significantly and he asked for clarification. Carol assumed it was a result of Loan 1 and Loan 2. Carol explained that the loans are a budget item and they were looking at both interest and principle payments. In 2011 she placed a note on the financials to show the deficit that actually shows up on a profit and loss. However, in looking at the note, some of the amount went to principle on the loan, which is technically paying an asset rather than an expense, because it pays down the loan. Carol stated that the Division of Drinking Water has a mandatory requirement for the Water Company to have a debt reserve equal to \$300,000 paid over ten years. The DDW also requires a capital reserve on the second loan. Mr. Sears recommended that the Board provide a balance sheet for future meetings. He believed the balance sheet would answer a lot of the questions being raised.

Mr. Sears stated that when he was President of the Water Company the Board put together a 20 year and a 30 year forecast for the Water Company. The forecast assumed that the Water Company would do all the funding and projected the rates. It did not take any loans into account. Mr. Sears remarked that where the Water Company stands today was not out of alignment with the projected forecast. The difference was the ability to complete the system faster by obtaining loans at a very low interest rate. Mr. Sears did not believe the owners would see significant increases like they had the past two years. He pointed out that the Water Company has only implemented two increases over ten years. Mr. Sears explained that when the Water Company was formed, they knew it would be necessary to incur these debts by either borrowing money or to piecemeal the system a little at a time. This Board took the direction they did because of a mandate in the formation of the Water Company to move towards this type of system. It was not a choice. By legal requirement the Board had to establish a full-time water system.

Mr. Cylvick stated that it was based on two things. The first was the master plan. The second was a letter that was sent to all the shareholders asking whether they preferred a special assessment or an increase in rates over time. The response was that 70% of the shareholders did not want a special assessment. At the time they continued with the Master Plan but soon realized that the Water Company was spending \$170,000 per year repairing lines and re-burying them 16" deep. The Board decided that the money would be better spent paying down the interest and principle on a loan to update the water system that would benefit the entire Ranch. Mr. Cylvick reiterated that the Bylaws dictated that they move in that direction. He understood that many of the owners were not pleased with the rate increases, but as certain shareholders were under threat of losing their homeowners insurance, the Board felt it was important to address the issue before 30% of the Ranch was denied insurance. A member thought the insurance issue was a weak argument because his insurance company did not cancel him. Mr. Cylvick stated that many factors were involved in the Board's decision to move in this direction.

The Board and the members reviewed the remaining budget items.

Mr. Cylvick pointed out the amount needed to pay for the water shares. He noted that the cost continues to increase. When he came on the Board in 2000 the cost was \$24,000. The current cost is \$42,000 for the same number of water shares. Mr. Cylvick stated that the Water Company has enough water shares for full build-out of the Ranch. Therefore, the Ranch is safe from a moratorium on building as long as they have sufficient water source. Carol explained that the Water Company gets a water share with every annexation. The property owner pays for the water share but it is assigned to the Water Company.

Mr. Cylvick reported that \$577,000 was budgeted and the total expenses were currently at \$398,000. They still needed to pay \$43,000 for water shares and two months of

general expenses, insurance and payroll. The principle and interest on the loan had been paid for November but they would need to make a payment in December.

Projects and Loan Update

Mr. Cylvick stated that the Water Company did an I-plat bypass to address fire flow issues. He explained that in order to get sufficient flow to I-plat the pressure on the Pine Meadow Drive line had to be increased to 280-300 psi and it consistently kept blowing out the line. Mr. Cylvick stated that Brody and Trevor came up with the concept of tying I-plat into the 200,000 gallon tanks instead of the Pine Meadow Drive line and pull the water off of Elk Road and drive it up the short hillside to I-plat. Horrocks Engineering confirmed that it was a feasible solution. Mr. Cylvick noted that he contacted several property owners to work out easement agreements to allow the Water Company to go up the hillside. He was denied by a few lot owners, but he was able to find two owners who were willing to allow it as long as the Water Company returned the disturbed area to its original condition. He noted that one lot owner was in I-plat and he was happy to grant the easement to obtain the fire flow. Mr. Cylvick noted that the I-plat bypass should accomplish the goals of providing fire flow to I-plat and lowering the pressure on Pine Meadows Drive to reduce the line breaks.

Mr. Cylvick stated that when they applied for the loan the Board decided to use it to fund the I-plat bypass and to have money available to replace the line on Pine Meadow Drive if the Bypass did not fix the breakage problems. They also wanted the loan to fund the Tollgate well, and to look at potentially getting water out of the Amoco well in Aspen Ridge. Mr. Cylvick remarked that they had hoped for better water production out of Tollgate, but the result was only 35 gallons per minute. However, the Tollgate well was still the best source on the Mountain.

Mr. Cylvick pointed out that they may not have to do the Pine Meadow Drive line. Once the I-plat pass is completed, they would monitor the Pine Meadow Drive line this winter to see whether or not it blows out with the reduced pressure. If there are no blow outs, they would not replace the line because the existing line is still in good shape. It is a \$700,000 project that would not have to be funded.

Brody explained that the primary reason for wanting wells on the Tollgate side was to have an independent pump line to fill the tanks when the Pine Meadow Drive line goes down.

Ms. Rakes stated that as a resident of Elk Road she assumed the new pipe going up the hill was part of the I-plat bypass. She asked if the pressure on the Pine Meadow Road line that was shifted to the one going from the 200,000 gallon tank would add extra pressure to the Elk Road line. Brody replied that the Elk Road line would be fine due to the PRVs that are set up on the road. It will feedback more pressure but it will be caught by the PRV. Brody explained that a PRV is a Pressure Reducing Valve that restricts the amount of pressure by opening and closing at a certain pressure point.

The valve constantly moves up and down adjusting the pressure.

Mr. Cylvick noted that the Amoco well is the original oil well that Oil Well Road was named after. The Water Company had budgeted approximately \$600,000 to drill a new well, but he believed they had found a way to reduce the project cost to \$375,000 if they decide to pursue that water source. He pointed out that if they could potentially save \$300,000 on the Amoco well and \$700,000 on the Pine Meadow Drive line they would not need to draw that amount from the second loan.

Mr. Cylvick reported that the Board decided to use part of the loan for the Smart meters to replace all the meters at one time. He clarified that the Smart meters are a benefit because leaks can be quickly and easily detected all year around. With the old meters, it could take up to a week to find a leak during the winter. Mr. Cylvick explained the process for reading meters and finding leaks with the Smart meters. He noted that the Board was considering the possibility of hiring a survey company to physically map every meter to have a DWG file of where the meters are and where the valves and everything else are located throughout the Ranch. Mr. Cylvick believed it would be worth the cost and the expense could go on the loan.

Brody suggested that individual property owners place a piece of rebar and PVC pole in front of their meter to mark the meter location for reference during the winter.

Trevor stated that by replacing all the meters this year they were able to eliminate every leak they found inside individual homes. They found continuous leaks, intermittent leaks, and leaky toilets. He and Brody assessed that the Ranch had been losing 8 million gallons of water annually through leaks in the system that they were unable to detect with the old meters.

A member recommended that the Water Company look into a GPS program that many water companies are using. Stated that he had looked into the program; however, the software and the equipment itself is very expensive. The member remarked that the GPS is expensive but the software is free and it can run off of a laptop. Mr. Deaver was familiar with the program and he believed the GPS software was free. However, Mr. Deaver thought Brody was talking about a different software package. The member explained that the once they purchase the GPS, it downloads a packet into a laptop and each meter is assigned an address and a simplet number. Brody stated that he would research the GPS program.

Mr. Sears asked if the Tollgate well was functioning. Mr. Cylvick answered no. Trevor replied that they were stacking blocks on the pump house and he believed they would meet the December 15th deadline. Brody stated that the lines were installed and they were only waiting on the infrastructure.

Mr. Cylvick commented on proposed projects for next year. One project would be to have everything surveyed. Another major project, if they do not replace the Pine

Meadow Drive line, would be to acquire the water they are entitled to in the Amoco oil well. Axle Grabowski, who started Aspen Ridge, purchased the land and took over the well without having any ownership of it. Pine Meadow has the water rights and they have the right to take water from that well. Mr. Cylvick stated that the person who cleaned out the well believed it would produce 100 gallons per minute; however, the Water Company needed to send down a camera and test pump the well to confirm the possibility. Mr. Cylvick noted that he had drafted an MOU with Aspen Ridge with the understanding that if the property owners would buy out Axle Grabowski for approximately \$12,000, the Water Company would reimburse them the \$12,000 as well as an additional \$2,000 in legal fees. At that point, the Water Company would take over the well and become a service provider for Aspen Ridge for the 12.4 gallons per minute they are legally entitled to. He noted that Mr. Grabowski obtained water shares and points of diversion and placed it over the well. The Water Company also has points of diversion placed over the well. Mr. Cylvick pointed out that if the well produces 100 gallons per minute, minus the 12.4 gallons per minute to Aspen Ridge, the Amoco well would be the biggest water source and put the majority of the water supply on the Tollgate side. It would be easy to access in the winter for maintenance and repair and it requires less electricity to pump than Uncle Tom's. The Water Company would take over maintenance of the well and they would charge Aspen Ridge whatever costs are incurred to provide them 12.4 gallons.

Mr. Cylvick stated that the Aspen Ridge owners have agreed to the terms of the MOU and they were prepared to move forward. However, all the owners have to be in agreement and one person, Thomas Broderick, has not yet signed or paid. Mr. Cylvick had negotiated the easement with Mr. Broderick for the Tollgate well site and he was confident that Mr. Broderick would sign the MOU.

Mr. Cylvick stated that the plan is to improve the Amoco well rather than drill a new well. He noted that the well was never intended for drinking water and he explained the process for improving the well to bring it up to State standards. They would eventually build another pump house on the Oil Well parking lot and he had already negotiated an easement for that project. Mr. Cylvick pointed out that there would be a \$300,000 savings if they improve the site versus drilling a new well. Mr. Cylvick stated that if the well produces even half the amount they were hoping for, it would still be the best source they have. He believed with all the wells combined that the sources were diversified enough and sufficient enough to provide for build-out.

Stan Schar, Lot D-70 commented on the leak issue and asked if it was better to spend the money on inline main meters that have telemetering versus spending money on trying to get more water into the tank. Brody replied that the cost to purchase and install one 6-inch meter and tie it into the line is approximately \$10,000 per inch. One 6-inch meter would be \$60,000 and they would have to have one for A-plat, Navaho, Alexander, Elk Road at a minimum. The cost for a 12-inch line that would feed Forest Meadows would be \$120,000. Brody stated that he had already looked into it because it would have been his preference, but the cost was too high. Mr. Schar remarked that

it would run equally as far through the bypass as it does through the 4-inch at half the cost. Brody stated that they can find a leak within eight hours or less in most cases. Mr. Cylvick stated that the leak location is found sooner because with the Smart meters they can determine quickly whether or not the leak is at the meter.

Mr. Schar asked about installing isolation valves. Trevor replied that isolation valves were placed every 1500 feet on the Pine Meadow side. Extra isolation valves were placed on the Forest Meadow side.

A member asked if it was possible to get a statement every three months showing how many gallons of water he used. Brody stated that the meters are read once a month and individuals owners can contact Carol or send her an email and she could provide that information. The member clarified that he was asking for an automatic statement without having to call. Mr. Cylvick replied that per the Bylaws the cost is \$50 every time someone requests a special reading.

A member asked for the status of the Bobcat Springs project. Mr. Cylvick explained that the person who started the project thought it was on Water Company property and he came to the Board asking that they create a fund for donations. However, two months ago it was determined that the property actually belongs to the Owners Association. He noted that it was now a matter for the Owners Association Board.

Hutch Foster, representing the Owners Association, explained that the project was still the same proposal; however, it was now more of a standard track proposal rather than fast-tracked. The project would be discussed at the Owners Association annual meeting the following week. Mr. Cylvick stated that the Water Company was holding the donations until the Owners Association makes their decision. He assumed the project would continue next year. Brody stated that if the Pond Project does not go through, the money would be credited back to the donor's water bill. Mr. Foster supported the project moving forward, but it needed to be discussed among the members.

A member noted that the website is being updated, but there are many things that are not updated. For example, the front page still talks about the \$11 per month increase, but it is now \$7 per month that was done last year. Other than Brody and Trevor updating the work being done, the rest of the website lacks effective information. He constantly looks at the website and reads the posted minutes. It is after the fact but it is a source of information and lets him know what is going on. Another member pointed out that the information is different depending on whether you link from the HOA website or go directly into the Water Company information. Carol replied that the difference in information was a webmaster issue. Brody stated that he personally does the front page updates.

A member stated that because attendance is low at the annual meeting, he suggested that they post the information that was handed out to the members today. He was

unable to attend last year and it would have been helpful to have that information available. He noted that the minutes could be posted as a draft before they were approved. Carol explained that a non-profit corporation is only required to post the annual minutes; however the Water Company posts their Board meeting minutes monthly. She asked if that was sufficient. The member stated that he learned a lot from reading the information provided this evening because he was not in attendance last year. It also answered questions he intended to ask before he had the benefit of the information.

Ms. Rakes stated that she signed up to receive emails but she was not getting them. Brody stated that if she signed up she should be on the email blast. Mr. Cylvick offered to contact the webmaster to check on the email addresses. Ms. Rakes asked if the last amendment to the Bylaws was in 1999. Mr. Cylvick also recalled an amendment two years ago in the Rules and Regulations regarding the frost free. Mr. Cylvick asked Carol to make sure the most recent Bylaws were posted.

A member asked where he could suggest that as an owner they pay more principle on the loan to pay it off faster, or do something to reduce the payment. Carol noted that changing the payment would affect the cash flow. She stated that raising the amount of the principle comes out of the pocket of the shareholders. Mr. Sears understood that the question was how an owner would go through the process of setting forth a recommendation of that nature. He explained that the way the Water Company is formed is that the Board is elected and empowered by the members to make the decisions and run the company. At an annual meeting or during a monthly meeting, owners can make suggestions or offer proposals; but the Board has the purview to either take it under advisement or decide not to do it. If the owners want to effect change, they could either run for a Board position or vote in new Board members.

Mr. Cylvick invited any owners to attend a meeting to hear the discussion or to drive around with Brody and Trevor to look at the projects. The owner clarified that the point he was trying to make was to cut back on projects to avoid incurring additional cost on the loan. He thought they should wait until the building season boom begins again and they get more money to offset some of the expenses. Mr. Cylvick stated that the Board tries not to spend money on unnecessary projects. However, the concern since discovering that Pine Meadow Mutual Water Company has an ownership interest in the Amoco well, is that someone took the ownership interest away from Pine Meadow without their knowledge. His concern is that the well would be the largest source and there is a possibility that they may not have the legal right if they wait too long. He was concerned that the owners could get additional water shares assigned to the well beyond the 12.4 gallons per minute. The member thought the Board should spend money on a legal opinion to see if it is a matter of use it or lose it or whether it could be postponed for a few years. Mr. Cylvick pointed out that the project was driven by loan money. If they wait, there is little chance that they would get another loan and they would have to do a special assessment. He thought it was better to use the loan money to do the project now and pay for it over 30 years. Mr. Cylvick invited the

members to attend a meeting to discuss it.

Ms. Rakes asked if the full \$3 million from the second loan had been earmarked, or whether it was more like a line of credit. Mr. Cylvick replied that it is a line of credit and they only pay principle and interest on what they draw. Ms. Rakes asked if the money could be used for the Amoco well. Brody explained that when they apply for the loan they have to specify what the money would be used for, and the Amoco well was defined as one of the projects. A member clarified that the loan money would only be used as needed and he was told that this was correct. Mr. Cylvick noted that the Water Company budgeted \$650,000 for the Amoco project. Improving the existing well instead of drilling a new well would reduce the cost to \$375,000, and that amount included the well building.

MOTION: Eric Cylvick moved to APPROVE the budget for 2013 as presented. Bill George seconded the motion.

VOTE: The motion passed 11-3.

MOTION: Eric Cylvick made a motion to increase the annexation fee one year based on the current standby fee. Cal Cragun seconded the motion.

In response to questions raised by the owners, Carol stated that the current annexation was approximately \$16,033 and the increase would put the annexation fee at approximately \$16,529. The proposed increase was approximately \$496.

Brody clarified that the annexation fee is paid by anyone outside of the Ranch who wants a physical connection to the water system. Mr. Cylvick noted that the Water Company has a policy for single family and single lots. They have not annexed communities. If a single lot outside the Ranch wants to join and the engineer determines that it is physically possible to connect them, the owner would have to pay for the infrastructure to make the connection. The lot owner is required to join the HOA and pay the total amount assessed by the Water Company since the beginning of the Ranch. Mr. Cylvick remarked that the Bylaws allow the Water Company to annex in outside lots, but they have only annexed nine lots in the last ten years. Mr. Cylvick explained the annexation process. He clarified that the annexation fee is in addition to the cost of connecting the meter.

Ms. Rakes asked if Deer Meadows would be looking for a water source if that project becomes reality. Mr. Cylvick stated that the Water Company was approached by Deer Meadows. Mr. Deaver remarked that Doug McAllister, the developer of Deer Meadows, told the HOA Board that he was drilling his own wells for the project and he already had the water rights. Mr. Cylvick clarified that the Water Board listened to Mr. McAllister's proposal without saying yes or no on providing water. He was told that Deer Meadows would have to pay the annexation fee per dwelling, as well as the infrastructure and the engineering costs to see if it was feasible. It would also have to be supported by the

Ranch Owners Association and the Deer Meadow lots would have to join the Owners Association. If those conditions were met, the Water Company might consider providing water. That was the end of their conversation with Mr. McAllister.

The members and the Board discussed the process for density transfers being proposed by Deer Meadows. Carol pointed out that the lot that transfers the density right is not allowed to have a right to water. Mr. Foster stated that when two lots are combined through a legal lot combination with Summit County and the owner gives up a unit of density, he wanted to know what happens to the second water share on the lot. Mr. Cylvick replied that one water share goes back to the Water Company and the lot keeps one share. Mr. Deaver pointed out that Mr. McAllister had reduced the density of the Deer Meadows proposal from 27 units to 6 units.

Mr. Schar requested an amendment to the previous motion to double the annexation fee for someone who comes in with a development of more than one lot because it puts a burden on the water system. Mr. Cylvick was uncomfortable amending the motion.

Mr. Sears understood that Mr. Schar was stating for the record his recommendation that the Board make sure that any costs are significant enough to make it worth providing water to a development. Mr. Cylvick remarked that if Deer Meadows moved forward with a request for water, the Water Board would present it to the shareholders for input.

In response to comments regarding density transfer and building rights, Mr. Foster explained that there is no functioning TDR in Summit County and Mr. McAllister could not actually buy a building right. The concept may work as a broad brush framework, but Mr. McAllister would technically be buying lots and abandoning the building right on the lot per a private development agreement proposed with the intention of keeping Pine Meadow Ranch from opposing development on the parcel behind the Ranch. Mr. Foster stated that the proposal of 2007 had been replaced with a proposal to purchase lots in Tollgate Canyon and turning them over as unbuildable lots. That was different than transferring density. Mr. Cylvick emphasized that the Water Company would not make any decision without presenting it to the shareholders.

Carol noted that the motion on the table to increase the annexation fee needed a vote. Eric Cylvick repeated the motion that was seconded by Cal Cragun.

MOTION: Eric Cylvick made a motion to increase the annexation fee one year based on the current standby fee. Cal Cragun seconded the motion.

VOTE: The motion passed unanimously.

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The annual meeting of the Pine Meadow Mutual Water Company adjourned at 8:50 p.m.

Minutes Approved

Date