

PINE MEADOW MUTUAL WATER COMPANY
BOARD OF TRUSTEES ANNUAL WATER MEETING
THURSDAY, NOVEMBER 6, 2014
KIMBALL JUNCTION LIBRARY
SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick-President, Cal Cragun, Bill George, Kelly Cox – Board Members; Representing the PMRHOA – Pat Kreis, Treasurer and Alan Powell (Area 3).

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. Carol Steedman from KGC Associates is the contract bookkeeper and administrative assistant for the Water Company.

Approval of 2013 Annual Meeting Minutes

MOTION: Eric Cylvick moved to approve the Annual Meeting Minutes dated November 14, 2013 as written. Cal Cragun seconded the motion.

VOTE: The motion passed unanimously.

Projects Update

Mr. Cylvick noted that the majority of the projects from previous years were kept on the list, and projects completed in 2014 were added to the list. He asked if anyone had questions on Items 1-36 which were recently completed. Mr. Cylvick stated that the opening paragraphs outlined the history of the two loans and the interest rates.

Completed Projects in 2014

Mr. Cylvick reviewed the projects that were done in 2014, which included paving the lower section of Tollgate Canyon Road. The Water Company also installed an emergency exit and a water line between Stagecoach Estates and A-Plat in Pine

Meadow. In order to do that project the Board negotiated an easement agreement with Fred Bacon, the landowner of the top portion of Stagecoach Estates. Mr. Cylvick reported that the Stagecoach Estates water system was given to Mountain Regional and Mountain Regional had spent \$3.5 to \$4 million dollars redoing their water system. He explained that Mountain Regional is a County owned water system that runs many of the water systems in the area.

Mr. Cylvick stated that Mountain Regional had a problem with fire flow water pressure for 12 lots at the top of Stagecoach. Pine Meadow Water had no secondary emergency exit and they were not able to find sufficient water source to allow Pine Meadow to build out the lots. After spending a significant amount of money on exploration to find water, they only ended up with 70 to 75 gallons per minute, including the new well in Tollgate Canyon. Mr. Cylvick remarked that it was enough water source to run the water system now but they needed 200 gallons per minute for build out. It was evident that water was scarce and to remedy the problem the Board discussed connecting to Mountain Regional.

Mr. Cylvick noted that an MOU was developed between the two companies which states that Pine Meadow would feed water to the upper 12 lots at Stagecoach. In return, Pine Meadow would be able to receive water from Mountain Regional if needed in an emergency situation. Mr. Cylvick pointed out that currently Pine Meadow and Mountain Regional were not officially connected to each other. He anticipated the usage at a couple thousand gallons per month and the intent is to zero out the amounts each month. For example, if 3,000 gallons runs to the upper part of Stagecoach, at the end of the month Mountain Regional would replace 3,000 gallons of water into the Pine Meadow tanks.

Mr. Cylvick clarified that the Water Company had not annexed into Mountain Regional and there was no other formal agreement beyond the MOU. He remarked that the MOU also states that if Pine Meadow chooses to annex into Mountain Regional in the future, that 50% of any infrastructure fee charged by Mountain Regional would be given to Pine Meadow to pay down the principle and interest on the loan.

Bob Burdette asked Mr. Cylvick for his personal opinion on the possibility of eventually annexing into Mountain Regional. Mr. Cylvick stated that he personally was not interested in annexing. However, the Water Company already operates under reduced requirements as a community water system. He was concerned that at some point the State would no longer allow them to operate under the reduced requirements. If that occurs it would result in a moratorium on building. Another issue is that Rocky Mountain Power has said they would shut down the power if a fire occurs on the Mountain, which means they would only have the water sitting in the tanks to fight a fire.

Mr. Cylvick stated that if there is a fire Mountain Regional could potentially pump 1,000 gallons of water per minute into the 500,000 gallon tanks. Partnering with Mountain Regional provides a safety benefit for Pine Meadow. Mr. Cylvick reiterated that he was not interested in annexing and it would require the agreement of more than half of the shareholders. His intent was to put Pine Meadow in a better position to negotiate their terms. The Water Company offered Mountain Regional something for Stagecoach, they used loan money to install the water line, and they were currently able to operate the water system as it is. However, if the State ever comes back to them regarding the reduced requirements, Pine Meadow would still have the ability to get 200 gallons per minute from Mountain Regional.

Mr. Burdette asked if any of the other Board members had a different opinion. There was no dissent among the Board regarding the MOU with Mountain Regional.

Alan Powell, Lot PI-16, noted that the 2013 Annual Minutes indicated that the full-time residents were using an average of 55 to 60 gallons of water per day. He asked if that was accurate. Mr. Cylvick replied that it was accurate a year or two ago. Mr. Powell understood that the State requires 800 gallons per day under the non-reduced requirements. He asked if it was possible to ask the State to reduce the 800 gallon requirement to 200 gallons based on the average usage and the limits on landscaping.

Brody Blonquist stated that the requirement was based on State regulations and it could not be reduced. Mr. Cylvick remarked that the Water Company could appeal it, but it could still change at any point. Mr. Cylvick noted that he meets with the State on a regular basis and the State has not shown any interest in making changes. He stated that two years ago Pine Meadow received the acclamation of Most Improved Rural Water System in the State of Utah. Mr. Powell was surprised at the huge disconnect between the State requirement and the actual usage.

Mr. Cylvick reported that the emergency exit is on Crow Loop in A-Plat. He explained that Pine Meadow had a road easement back to a sliver of property owned by the HOA and that sliver of property runs parallel to Majestic Mountain and Stagecoach Estates. The HOA property was 28 feet wide and they were able to go down the platted road to the private property and build a road base road up to Fred Bacon's existing driveway. The water line runs underneath the first part of the road and down along Fred Bacon's perimeter property. Two crash gates were installed, one on each side. Mr. Cylvick emphasized that it was emergency access only. As part of the easement agreement, the Water Company put up a 4-foot high fence along Mr. Bacon's property.

A member asked if the Water Company intended to educate the owners about the access through the website. Mr. Cylvick stated that the HOA would provide that

information on their website. He noted that the project was just completed and the members would receive notice. Alan Powell stated that the HOA would have emergency exit signs that could be posted in the event of an emergency so people going down Tollgate would know where to turn.

Proposed Projects for 2015.

Mr. Cylvick reviewed the list of proposed projects.

Mr. Cylvick reported that there was approximately \$215,000 available on the loan. The Division of Drinking Water was not pleased that the Water Company has taken so long to spend the money, but over time they have improved one section at a time as things needed to be done. The Board felt that was a better approach than working off of a master plan and doing things that were not needed. Mr. Cylvick thought the Board had been very efficient with the money that was spent.

Mr. Cylvick stated that the next project would be to take out the booster station on the 500,000 gallon tank and replace it with a larger booster station that can pump more water up to the 200,000 gallon tanks. It would help with fire protection in I-Plat, Alexander, Elk or other areas that are serviced by the 200,000 gallon tank. Once the project is completed, they will be able to pump up to the 200,000 gallon tank for fire flow purposes or leaks. Mr. Cylvick pointed out that a significant amount of water is needed to find leaks because they have to let the water run out the leak and through the ground in order to find the leak. Under the current system they were depleting the storage faster than they could fill it up.

Mr. Cylvick commented on Item 35 and noted that the Water Company had some form of an ownership interest in the well at Aspen Ridge. Amoco had deeded the well to the Water Company but it was taken over by Axel Bubowski for his personal water well. Mr. Cylvick stated that the well was never intended to be a drinking water well because it was designed to clean off oil drilling equipment. It had a very thin casing and it did not meet community water system standards. Mr. Cylvick had negotiated a deal with Aspen Ridge to scrub out the well and to test pump it to see if there was enough water for both the Pine Meadow and Aspen Ridge communities to share. Approximately \$600,000 was dedicated from the loan money to drill a new well and run a water line to the system. However, after the well was scrubbed and test pumped it only produced 15-20 gallons per minute. Mr. Cylvick noted that Pine Meadow Water was obligated to provide Aspen Ridge 12.5 gallons per minute and with such a small production it did not make sense to drill a new well. At that point the Water Company turned the well over to Aspen Ridge.

Mr. Cylvick noted that Item 34 was the I-plat bypass line. He explained the easement negotiations that occurred in order to run the line from Elk Road to I-Plat.

Mr. Cylvick stated that the Water Company was putting up a Cleary Building shed next to the Water Company building to store heavy equipment and parts during the winter months. Mr. Cylvick noted that Jody Robinson, the Ranch Manager, also shares the Water Company shop for HOA equipment and repair work.

A member asked if the Water Company had considered approaching the LDS Church about tapping the wells on the Church property. Mr. Cylvick stated that the hydrogeologist had analyzed all the wells on both sides of I-80 and the production was very low. Most of the wells were 10 gallons per minute at the most. Mr. Cylvick remarked that Uncle Tom's at 35 gallons per minute has the highest volume of any well on the north side of I-80. He noted that all the wells were scrubbed, test pumped and used cameras, and none of them had significant water production. Mr. Cylvick stated that hundreds of wells were drilled and no one found water on this side.

Financials and 2014 Budget Review

Mr. Cylvick reviewed the year-to-date financials dated November 6, 2014. Carol had also included the Budget for 2015 that the Board had approved. He noted that the budget was similar to the previous year budget. Mr. Cylvick stated that many years ago it was difficult to track where money was coming in or going out. When Carol Steedman was hired he asked her to breakdown the water assessment into categories of previous year assessments, excess water assessment, metered, and standby. He recognized that the budget detail may be excessive but he wanted each line item to be clear and traceable.

Mr. Cylvick noted that the total income was only \$3,000 under budget and money was still coming in. He believed they would hit the budgeted amount of \$673,954 before the end of the year. Mr. Cylvick stated that the majority of the assessments from previous years is collected through Revenue Recovery, the company they hired to do collections.

Mr. Cylvick indicated the principle and interest payment on the two loans. The monthly payment was approximately \$12,000 on one loan and approximately \$13,000 on the other loan.

A member asked about the value of the water system. He thought the financials should include a balance sheet showing the value of the overall properties and assessments of the system less the current liabilities. If the water system is a \$6 million investment he would like to know the value of the system. Mr. Cylvick stated that the current value

was approximately \$6.8 million. He noted that they typically do not approve the balance sheet at the Annual Meeting. The member suggested that they include a balance sheet for future Annual Meetings so the shareholders could see the value of their investment relative to the Company they are all a part of. Mr. Cylvick remarked that the Board reviews and approves a balance sheet at their monthly meetings. The member thought the shareholders should have the same benefit of reviewing a balance sheet at the Annual Meeting. He thought the shareholders should understand what the value of the Company is based on the level of investment that is made.

Carol reported that the value of the water system was \$6.7 million. The loan was currently sitting at \$5.8 million. The member understood that they were in a positive position relative to the value. He thought it was good for the membership to know that the Water Company has tangible assets, particularly if they find themselves in annexation negotiations with Mountain Regional. Mr. Cylvick stated that he had hired Haney & Company, an accounting firm that does accounting for other water systems, to do a valuation of the water system. That valuation was on file. Mr. Cylvick agreed that it would be helpful for the owners to understand, but he did not believe the valuation would be important in terms of annexation negotiations.

Mr. Cylvick stated that as part of the two loans the Water Company is required to set aside \$1800 per month in escrow. Carol noted that it was shown on page 2 as the Debt Reserve. It is over a ten year period and the Water Company is required to have at least one year's worth of payments set aside in escrow. Carol stated that the line item for Capital Reserve was also a loan requirement, but the State had not called for that part of the reserve yet. The Capital Reserve sets aside money to immediately fund problems with the water system.

A member asked if the \$7,500 charge under Accounting and Professional Services was the audit. Mr. Cylvick stated that it was for the valuation. Mr. Burdette clarified that the valuation was not a financial audit. Mr. Cylvick agreed that it was not a financial audit; however, the State requires a financial audit on the loans every year.

Mr. Cylvick noted that the Net Ordinary Income was showing at about \$153,000. He stated that approximately \$139,000 still needed to be paid out. He expected to end the year with a positive cash flow of \$14,000. He pointed out that the escrow accounts required by the State is money that belongs to the Water Company. Carol remarked that the Escrow is in the bank and managed by an Escrow Officer. The State has nothing to do those funds; and it is an asset of the Water Company.

Bob Burdette asked about budgeted health insurance costs. Carol stated that it was higher than the actual cost because insurance premiums change, and while they have a

lower rate now they wanted a cushion in case the rate is increased. Mr. Burdette asked if the increased budget was an indication that they would be hiring a third employee. Mr. Cylvick answered no and reiterated that the intent was to have a cushion for increased premiums.

A member asked if the amount budgeted for health insurance included Workman's Comp. Carol replied that Worker's Comp was a separate line item and the amount is based on payroll.

A member commented on the 2014 budget of \$24,000 for water shares existing. He noted that the budget had been increased to \$46,000 for 2015 but there were no actuals. Carol replied that it comes in the middle of November and it is always a surprise as to whether or not Weber Basin raises the rate. Mr. Cylvick noted that Mountain Regional would not need those water rights if they were to ever annex into Mountain Regional. He pointed out that the Water Company was paying \$44,000 per year for water shares to remain a private water system.

MOTION: Eric Cylvick moved to APPROVE the Profit and Loss/budget versus actual year to date, dated 11/6/2014. Kelly Cox seconded the motion.

VOTE: The motion passed unanimously.

MOTION: Cal Cragun moved to APPROVE the Budget for 2015 as presented. Eric Cylvick seconded the motion.

VOTE: The motion passed unanimously.

Miscellaneous Discussion

A member stated that the road work was great. He asked if there was a formal arrangement or just a handshake agreement with the HOA to take on the maintenance of the roadwork that was done. Mr. Cylvick replied that it was more or less a handshake. He stated that a lot of construction work was done on the Ranch and the Water Company tried to refurbish the roads as best they could with road base. However, the construction vehicles on the roads since 2006 had taken its toll on the road. Since they were able to select projects to finish using the loan money, the Water Company decided to allocate some of the loan money to repair some of the damage that was done by the construction vehicles. Loan money was used to pave that lower section of road and to slurry seal it.

Mr. Cylvick noted that Summit County gave the HOA a grant of approximately \$250,000

because the Water Company had made improvements to the Ranch; particularly the emergency access and the water line to Stagecoach.

The member clarified that he had asked the question because he wanted to make sure that the homeowners would not be the ones obligated to maintain the road. Alan Powell stated that in their recent budget meeting the HOA Board proposed to set aside \$20,000 per year to chip seal the road every four to five years. They understood that as an HOA it was their responsibility to maintain the road for the owners.

Mr. Cylvick stated that Summit County was concerned with Forest Meadow Road, particularly the section that was over 21% grade. The Water Company paid for the engineering of the road with loan money. Summit County contributed \$250,000 with the condition that the HOA contribute 14% of the cost. Mr. Cylvick commented on the process and noted that it was a team effort between Summit County, the Water Company and the HOA. He reported that Pine Meadow is the only community that has received grant funding \$250,000 from Summit County. Mr. Cylvick pointed out that the Forest Meadow extra turn was engineered to stay completely on HOA property.

Mr. Cylvick stated that the members needed to vote on increasing the annexation fee. He explained that if someone outside of the Ranch wants to be annexed into the Pine Meadow Mutual Water Company, they are required to pay an annexation fee equal to all of the standby fees since the beginning of the Ranch. The current annexation fee is approximately \$17,000; however, the fee is increased by the standby amount each year.

MOTION: Eric Cylvick moved to increase the annexation fee by one standby in the amount of \$616. Kelly Cox seconded the motion.

VOTE: The motion passed unanimously.

Elections

Carol noted that the ballots were sent out and the members had 30 days to return them.

Cal Cragun and Kelly Cox were up for re-election. Bruce Hutchinson was running for the Board as well. Two positions were open. A member wanted to know why the ballot said to vote for one candidate if two positions were open. Carol explained that the two open positions were for part-time resident positions on the Board. If someone wanted to vote for a full-time resident they could write-in that name. The member pointed out that it was a five-member Board and at least two must be full-time residents; but that did not mean that the other three could not be full-time as well. Carol noted that Eric

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Cylvick was the only full-time resident currently on the Board. Tony Tyler was also full-time but he was the HOA representative.

The Annual meeting of the Pine Meadow Mutual Water Company adjourned at 7:55 p.m.

Minutes Approved

Date