

PINE MEADOW MUTUAL WATER COMPANY
BOARD OF TRUSTEES ANNUAL WATER MEETING
MONDAY, NOVEMBER 10, 2008
KIMBALL JUNCTION LIBRARY
SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick-President, Eric Anderson-Vice-President, Cal Cragun-Treasurer; Bill George, Secretary; Dan Heath–Board Members

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

Eric Cylvick called the annual meeting to order at 6:34 p.m. on Monday, November 10, 2008.

Eric Cylvick welcomed everyone and introduced the Board members.

Mr. Cylvick reviewed a handout he had prepared and described what they have accomplished with the loan that was secured. The handout also included the proposed budget for 2009, which he would discuss later in the meeting.

Mr. Cylvick stated that he has been a full-time resident on the Ranch for ten years. He has been the president of the Water Board since the Fall of 2002.

Mr. Cylvick remarked that the first paragraph of the newsletter describes the loan the Water Company secured for improvements that have been completed on the Ranch. They were awarded a \$3.6 or \$3.7 million loan and that number was determined by going through the project outlined in the master plan. Horrocks Engineering, the firm that engineered two master planning and water systems, laid out a twenty year master plan and broke down the projects to be done in that twenty year period. They also talked about the rate increases along that twenty year period and provided a list of projects, which included the size of the water lines going in, the amount of hydrants, and the amount of joints and junctions. Based on the work done by Horrocks Engineering, the Board was able to project the length of time and the money these projects would require to completion.

Mr. Cylvick stated that the initial work dates back to when Paul Allen was still on the Board. He and Mr. Cylvick spent a lot of time going through spreadsheets to decide what the rates and assessments would have to be in order to pay for these projects. That was in 2001 and based on the numbers Mr. Allen put together, they decided to increase the rates to match the master plan and try to get the projects done.

Mr. Cylvick stated that in 2001 they still projected it would take 18 to 20 years to finish the project. The last project slated was the 500,000 gallon water tank, which would provide adequate fire flow. That was scheduled to be completed in 2020 based on the master plan. Mr. Cylvick explained that after looking at each project and projecting cost increases over twenty years, they came up with a total of \$3.6-\$3.8 million to upgrade the water system.

Mr. Cylvick reported that the Water Company was able to get a 20 year loan at 3% interest. He noted that 80% of the loan came from the Federal Government and 20% came from the State Division of Drinking Water. They are ending the third summer of construction and the main project for this year was laying a 12" line that came down in front of the office and down Arapaho.

Mr. Cylvick stated that the projects came in at \$2.9 million, which was approximately \$900,000 under the requested loan amount. He pointed out that they were also able to do work that was not anticipated, in addition to replacing the water lines and building a 500,000 gallon tank.

In terms of the budget, Mr. Cylvick stated that in 2000 and 2001 they were spending approximately \$110,000-120,000 per year per project. In addition to the project costs, they also budgeted \$30-\$50,000 for repair and maintenance and the same lines were repaired every year. The lines would freeze but they could not bury them any deeper so the next year they would freeze again. Mr. Cylvick remarked that the logic behind getting a loan was that if the lines could be buried deep enough and they were not continually repairing frozen lines, they could use that \$150,000 to \$180,000 to service a loan. The objective was to get out of a construction phase and into a maintenance phase.

Mr. Cylvick stated that currently they have Ranch-wide fire flow, which means that every hydrant has enough water for fire flow. There was some question about I-plat but he believed they had remedied the problem. Mr. Cylvick remarked that they are now in a position to provide year-round water. They believe the lines are buried deep enough but only time will tell.

Mr. Cylvick reported that in 2002 Brody Blonquist was hired as a full-time water manager. Two years ago they hired Trevor Townsend as his assistant. The Board wanted to make sure that someone had the knowledge to take over in case Brody was hurt or something happened. Safety was another reason for having two employees working together. Mr. Cylvick noted that having two full-time employees allows them to get on site and fix problems quicker. He explained that Trevor Townsend's salary was applied to the loan during the summer because he was working on projects. Once the projects were completed, he was put back on the Water Company payroll.

Mr. Cylvick stated that they now have sufficient water pressure at the top of I-plat and that had not occurred before they put in the 12" line in front of the gravel pit. He remarked that the Board now fully understands the design and the layout of the entire system. The system had been patched together for so long they had no idea what was in the ground.

Mr. Cylvick noted that Brody and Trevor installed 135 new fire hydrants and 60,000 feet of new water lines. In looking at the history trend on the telemetry system on the computer they can monitor how much water is going out of the system. They have stopped about 2 million gallons of water from leaking into the ground from cracks in the lines. Approximately half of that amount was on Navaho Drive. Mr. Cylvick remarked that the new lines were dug deeper and bedding sand was used around the pipes.

Mr. Cylvick noted that the 500,000 gallon water tank that was projected for 2020 was installed last year. This tank provided the ability to have adequate fire flow. Mr. Cylvick stated that the telemetry system was improved and updated. The telemetry is the computer system that monitors the level

of water in the tanks and monitors the pumps and the booster stations. Mr. Cylvick explained how the telemetry works. An alarm system was put in with the telemetry system and it automatically calls the Board members who live on the Ranch to let them know that the level in the 500,000 tank has dropped. Mr. Cylvick stated that 19 new pressure reducing valves (PRV's) were installed throughout the Ranch. This should help reduce the amount of broken lines in Forest Meadows. The PRV's are easy to replace and you can hear water running through them, which helps detect a leak. Mr. Cylvick reported that all the pump houses were re-wired to code. They also purchased a gas chlorinator, which is safer than using bags of chlorine.

Mr. Cylvick reported that Eric Anderson worked with a website developer and they try to update the website as often as possible. Additional safety equipment was purchased for Brody and Trevor. Mr. Cylvick stated that a decision being considered this evening is whether or not to install water meters at the wells and between the two tanks. He explained that currently they know how much water is being used by the shareholders and how much water is in storage, but they have no way of knowing how much water is actually being pumped out of the wells themselves. They are trying to get a grasp of how many gallons per minutes the wells are pumping, how much of that water actually makes it into the water tanks and how much goes out to the shareholders. Mr. Cylvick expected that they would be required to provide more information on the water system in the future.

Mr. Cylvick reported that road base was put on affected roads and the Water Company worked with the Homeowners in terms of getting road base on other roads. The pump houses were epoxy coated and waterproofed on the outside. Some of the pump houses were re-roofed and re-wired.

Mr. Cylvick stated that they had used the loan to purchase a Kawaski side by side, which was critical for working on the project and going back and forth to the office. The old Ford Truck was constantly breaking down and they were able to purchase a new truck through the loan. They also purchased a trailer and a mini-trackhoe. The mini-trackhoe is used for actually digging up the meters. Mr. Cylvick reported that they also purchased a trackhoe because it was more cost effective than leasing a trackhoe for three years for the project. They purchased the trackhoe for \$85,000 and now that the project is complete, they plan to sell it and put that money towards the principle on the loan. Mr. Cylvick noted that the Water Company had already purchased a backhoe and paid it off with the loan. He felt the equipment they currently have would carry them through fifteen years of operating the Ranch. Owning the equipment also saves money because most of the work can be done in-house.

Mr. Cylvick stated that they also purchased spare parts for future repairs. They also have a \$20,000 credit at Mountain States, which is where they purchase their pipe and parts. The credit was a result of returning a number of parts they did not use for the project. Mr. Cylvick believed this credit would keep them from having to allocate budget money for repair and maintenance for the next three to four years.

Mr. Cylvick reported that they also built a 3,000 square foot shop and attached it to the existing shop. They are leasing the old shop to the homeowners. At this point they are able house the mini-hoe, the side by side and the backhoe inside the shop and out of the weather, which should help extend the life of the equipment.

Mr. Cylvick noted that they recently developed a new protocol for reading meters. Meters will be read in October and if anyone has a meter reading of 20,000 gallons over their previous year reading, the meter will be re-read with witnesses. If the meter still reads the same, they will call a Board member to read the meter. Mr. Cylvick remarked that last year he read 15 or 20 meters that were showing overages.

Mr. Cylvick stated that the Water Company has signed on with a new collections company. Shareholders will be contacted and given the opportunity to attend a Board meeting or make payment arrangements, however, after 12 months of not paying, an account will be sent to collections. He had consulted an attorney and beginning next year they will remove water rights for people who are past due and have never paid. Mr. Cylvick explained that at this point, if someone does not pay, the Board files a Notice of Unpaid Assessments with the County. If the property is ever sold, the title search finds a Notice of Unpaid Assessment and the Water Company gets paid. Since the projects are done and the Water Company is established, they feel they can move forward more aggressively for those who do not pay.

Mr. Cylvick commented on water theft protection and noted that they are considering shutting down the taps at Bob Cat and the gravel pit. Those would be unlocked if there is a break or a problem where people do not have water service. Mr. Cylvick stated that currently people from outside the Ranch are using those faucets and getting approximately 50,000 gallons of water a year for free. Mr. Cylvick explained how the winter time repair protocol for fixing leaks has been improved.

Mr. Cylvick stated that a number of isolation valves were put in at Forest Meadows where they can shut down and isolate roads when they find a leak. They put a water line across Grandview in Forest Meadows, which provides a better looping system in Forest Meadows.

Mr. Cylvick stated that finding another water source was the primary future consideration for discussion. He did not think there was an immediate need but it is something they need to look into. One option is to look for a source closer to Bob Cat. Another idea is to scrub out Uncle Tom's well. That would only improve the well production of water but not provide another source. Mr. Cylvick remarked that they have enough water storage to make it through the winter but it would not be enough if someone had a fire.

Mr. Cylvick reported on an option that has been presented to the Water Company purchasing additional water from Mountain Regional Water Company. Nothing has been negotiated at this time and the Board is still considering the benefits and drawbacks.

Tom Deaver, Lots E-71 E-72 and E-77, asked if it was possible to get the \$20,000 credit from Mountain States in cash. He pointed out that if Mountain States were to go out of business, that money would be lost. Mr. Cylvick replied that the credit came from parts that were purchased and returned and he did not think they could get cash.

Brody Blonquist stated that Mountain States is the only place in the State of Utah and in other Western States that sells supplies for the water industry. He felt confident that they would stay in business.

Mr. Deaver referred to unpaid accounts and noted that if a property owner was to do a quit claim deed, the title would be passed to the new owner and Pine Meadow would not have a way to get their money. He asked if there was any way to get around that. Mr. Cylvick stated that the Water Company removes the water meter in those cases. Mr. Deaver pointed out a typo under the proposed budget. He noted that various places in the budget indicates that 15,000 to 20,000 gallons is \$20 per 1000 gallons; however on the actual page where it is itemized, the line reads \$20 per gallon.

Mr. Deaver stated that Brody Blonquist and his crew have been fantastic. He commended them and the Board on the quality of the crews and the work they have done, as well as the updating and upgrading that has been done.

Bob Burdette, SS-144-H, stated that as they put in new water meters, he understood that they came across some non-metered uses, where people had tapped into the old water system and a meter was never set. He asked how many they found and the current status. Mr. Blonquist replied that all of those have all been disconnected. As far as the number, he was unsure because they never followed the lines to see where they went. The way the old system was put in had stub outs to every lot. Mr. Blonquist noted that they came across two non-metered lots during the entire project and both paid their assessments. Mr. Cylvick remarked that some people knew and others did not. Every property had stub outs and people just tied directly into them. Without assuming that anyone was trying to steal water, they now require everyone to have a meter or they do not have a water hookup.

Mr. Burdette wanted to know how much rent the HOA pays for the old shop. Mr. Cylvick replied that the Water Company rents it to them for the cost of the utilities. The piece of property next door where the new shop was built for the Water Company is on Homeowners property and they negotiated a trade for the cost of utilities.

Albert Mayo, Lot C-60, asked if the price for water increased with the increase in gallons. Mr. Cylvick explained that last year each property owner got 11,500 gallons for the \$491 assessment. This year the rates were raised 28% but the amount of water was increased by 30%. Mr. Mayo asked if the \$25 per month interest is paid every month. Mr. Cylvick stated that he would explain that when he reviewed the budget.

Budget changes

Mr. Cylvick stated that the Board did not know how much of the loan money they would use, therefore, they worked the budget based on \$2.9 million for 19 years at 3% interest. The Board considered all the options and determined the necessary number to increase the assessments in order to cover the principle and interest on the loan. He clarified that the increase was not an arbitrary number.

Mr. Cylvick noted that the \$491 assessment was increased to \$629, which is a \$138 per year increase. The monthly amount went from \$40.92 to \$52.42 per month. The increased standby water assessment was increased by 28% and went from \$322 to \$412, for an increase of \$90 per year. The annexation fee was also increased 28%, from \$10,996 to \$15,311. That number was

based on the amount the property owner would have paid in assessments if they had been part of the Ranch over the last 35 years. Mr. Cylvick stated that the impact fee and the hook up fee were also increased 28%. He noted that the hook up fee is very competitive with Park City, Mountain Regional and surrounding areas. Mr. Cylvick stated that the overage amount per gallon was increased. Usage over the initial 15,000 gallons was increased from \$15/1,000 to \$20/1000. Verle Buhler, Lot D87A, hoped the Board was not serious about the increase. Mr. Cylvick assured Mr. Buhler that they were serious. Mr. Buhler asked if the increase was for part-time residents. Mr. Cylvick replied that it was for metered and standby properties. Mr. Buhler understood that all the work on the Ranch has been done so people could have year-round water. Mr. Cylvick stated that the main reason was for fire flow to allow people to fight a fire. Mr. Buhler asked if the Board thought it was fair to charge a part-timer who uses his cabin on weekends during the summer the same amount as a person who lives on the Ranch year-round. Mr. Cylvick pointed out that a person who uses over 15,000 gallons pays a higher rate. Mr. Buhler stated that last year he only used a little over 2,000 gallons total. He was already paying for more than what he used and it is unfair to expect him to pay \$50 more per month when he does not use it in the winter. Mr. Cylvick replied that it is fair because that is how every other water company operates. Mr. Buhler felt the problem was that they were being compared to Park City and Timberlakes, which have all kinds of amenities they do not have at the Ranch. Mr. Blonquist informed Mr. Buhler that the amenities were part of the HOA and not the water company. He noted that the residents at Timberlakes pay an HOA fee in addition to their water fee. Mr. Buhler pointed out that Pine Meadow residents have to pay HOA dues.

Mr. Buhler could not believe that the Board would consider charging a part-time resident \$629 a year. He stated that he came up to his cabin four times this summer and the water was off. Mr. Buhler stated that he has owned property on the Ranch for 36 years. It was supposed to be a recreation facility and they are trying to make it a rich man's place. Mr. Cylvick clarified that by the time he became president of the Water Company the bylaws and the rules and regulations were already set that they had to move towards providing year-round water for people in a timely fashion when it became financially viable. Mr. Buhler understood the reasoning, but he did not think the part-timers should be charged the same amount as full-timers.

Paul Allen, Lot G-46, stated that from his perspective, the Board members have done the most fantastic job he could possibly imagine. They have done a phenomenal job getting the water to the point where it is safe and every homeowner has fire flow. Without the work of the Board, Pine Meadow would not be able to have the insurance rates they have or anything else. It would not be a safe place to have a cabin. He applauded the Board for what they have done.

Mr. Cylvick appreciated and understood Mr. Buhler's concern. Unfortunately, as President of the Water Company, he and the Board have to make decisions for all the shareholders and that was the decision they made. Mr. Cylvick believed they saved the Ranch \$3-4 million by accelerating the projects and getting them done now, as opposed to trying to build that 500,000 gallon tank in the year 2020. Mr. Buhler agreed that the Board has done a fantastic job because he was around when the first system was put in; but he thought some consideration should be given to part-time residents.

Bob Burdette, Lot SS-144-H, asked if the Board has considered having different levels of water service and charging different rates to keep it fair for those who do not use as much water. Mr. Cylvick stated that the fee schedule was set up by Horrocks Engineering and it was in the master plan. The projections over twenty years to do the project were based off of the \$15/1,000 gallons. Mr. Cylvick explained that they used the master plan as a template and worked off of that. The only change they made to the fee schedule was to increase the base amount of water. Mr. Cylvick stated that the Board was busy with the projects and they had not discussed levels. He was not interested in doing something different but if another Board member showed some interest he would be willing to consider it.

Mr. Buhler asked if the Board members who were part-time residents thought this was fair. Cal Cragun stated that he did think it was fair for a couple of reasons. If they assess everyone for every water improvement, it would cost a lot more. Mr. Cylvick stated that if they assessed everyone equally for water improvements, each shareholder would be assessed \$3800. Mr. Cragun stated that he would rather pay \$11 more each month than come up with \$3800. During the winter months when he does not come up to his property, he would rather pay \$50 to have the fire flow in case he has a fire. Mr. Cragun preferred to pay the increase and have the protection.

Mrs. Buhler stated that if their cabin caught fire no one could get to it because their road is not plowed in the winter.

Paul Gilchrist, FM-172, supported the Board on getting the fire flow.

Water Assessment Comparison

Mr. Cylvick reviewed a comparison he had prepared using numbers that Mr. Blonquist had obtained from Timberlakes, Stagecoach and Pine Meadows. He wanted the shareholders to have this information so they could compare fee schedules. He noted that at Timberlakes, a property with a cabin is assessed \$790 per year for both full-time and part-time residents, and they project to increase that rate 85% by the time their projects are completed. To date, Timberlakes had 5% of the project done. As of now they pay \$170 more per year for 15,000 gallons of water than what Pine Meadow pays. Mr. Cylvick reviewed the numbers for Stagecoach and noted that each shareholder was assessed \$25,000. It was a special assessment that spread out over 25 years. Currently they pay \$1,000 per year plus water. Mr. Cylvick noted that for 15,000 gallons of water, Stagecoach residents pay \$1,638.51 per year. Mr. Cylvick pointed out that in comparison, Pine Meadow has completed all the projects and updated their entire system, and with the increase the metered assessment is \$628.

Mr. Cylvick reiterated that they need to service the debt over the next 20 years. However, if more people move up and they end up having more money than expected, the Board would lower the rates instantly. Mr. Cylvick reported that they have \$100,000 in the bank. If there is an emergency or something major happens, they need to have a certain level of income cash on hand. If they reach a comfortable level and income keeps coming in, they would definitely consider lowering the rates.

2009 Budget

Mr. Cylvick had prepared the 2009 budget for review. He noted that the numbers on the left hand column reflected what they have spent to date for 2008. Those numbers were just what was spent as the Pine Meadow Mutual Water Company and what it cost to run the Ranch. The profit and loss would later reflect how much was spent on the loan.

Mr. Cylvick stated that the numbers were broken down in the profit and loss so they could track the dues that were actually collected this year on the statements that were sent out this year, and keep that number separate from money that was collected on back dues from previous years. This provided a more accurate idea of how much money they were collecting on a yearly basis. Mr. Cylvick noted that the \$268,078.14 was the amount they project will be collected from all the metered lots. He stated that the \$146,440 was the amount they project will be collected from standby lots.

Mr. Cylvick stated that the property taxes were increased \$10,000 last year. The cost for water shares also increased. He noted that the Water Company pays \$42,000 per year just to have water shares. Mr. Cylvick stated that \$12,000 was budgeted for repair and maintenance. He did not anticipate using that money and believed it would go into the bank towards the legal defense fund and the capital reserve fund.

John Gilchrist, Lot 172, asked for clarification of the \$56,000 under water connection fees. Mr. Cylvick replied that he projected that number based on the anticipation of four new cabins and an annexation.

Mr. Cylvick indicated the principle and interest payment for the loan and noted that he had estimated the payment to be \$202,000 per year. Mr. Cylvick remarked that anything below the net ordinary income has to do with what they spent this year on the project. He felt it would be confusing because they transferred money in and out of State and Federal divisions.

Mr. Cylvick reviewed a potential income comparison between last year and this year, with increase in rates. The comparison breaks down how much water was used between the different categories in the fee schedule. Mr. Cylvick noted that there are currently 823 lot owners. He indicated the progressive rate for using water. Mr. Cylvick pointed out that 79%, or 364 of the shareholders use less than 15,000 gallons and pay 21 cents per gallon. The 21% or 95 shareholders that use more than 15,000 gallons pay 25 cents per gallon. Mr. Cylvick stated that 12% of the shareholders pay 21% of the dues. Mr. Cylvick reported that 56% of the shareholders have metered lots.

Tom Deaver, Lot E77, noted that almost two-thirds have meters and he wondered if they would have to have additional water source when 90 of the lots are metered. Mr. Cylvick replied that if they can get 175 gallons a minutes out of Uncle Tom's well they would technically have enough water for build out. The Board is concerned that if Uncle Tom's well goes down, since it is four miles away from the interstate they would have access issues. Mr. Cylvick stated Uncle Tom's has been a great source. If they can get it to produce more water and find a way to replace the pump in the snow, they may not need to draw another well.

Mr. Cylvick noted that the last page of the handout included the fee schedule for Mountain Regional and he encouraged the shareholders to check his numbers.

Mr. Buhler wanted to know who he should contact if he comes up on a weekend and cannot get any water. He asked if there was an emergency number. Mr. Blonquist noted that the phone number is on the side of the building at the gravel pit. Mr. Cylvick stated that if something happens and people lose water, several people have keys and they can unlock Bob Cat.

In response to a question about when impact fees and hookup fees are paid, Mr. Cylvick replied that some people pay in advance if they join the Ranch and know they are going to build someday. Mr. Blonquist explained that the hook-up fee is paid when the owner wants a meter installed on the property. In terms of building, according to County Code, a building permit cannot be obtained without a water letter from the Water Company. Mr. Cylvick stated that the Water Company issues a Summit County required formal water letter. It is not a letter of intent of eligibility. Mr. Cylvick clarified that a meter is not installed until the fee is paid and the check clears the bank.

In terms of annexation, Mr. Cylvick noted that the letters states that if a person follows the bylaws and rules and regulations the Water Company will consider them for annexation. He stated that when the Water Company receives a request for annexation, the County asks for a letter of eligibility. Because of the short building season, if fees are paid, he issues a water letter. Because the Water Company and the HOA are separate entities, they cannot withhold a water letter if HOA dues are unpaid. However, the Board decided that because they impact the roads when installing a meter, they can decide not to install the meter until the HOA is paid. The property owner can get a water letter to start building in the spring but they cannot obtain a certificate of occupancy unless they have water. The shareholder commented on a situation where that process was not followed. Mr. Cylvick replied that the County had made a mistake and he explained why the mistake had happened.

Mr. Cylvick stated that Brody Blonquist and Trevor Townsend did a phenomenal job managing the Ranch and the projects and they are a huge asset to the Ranch. He also thanked Carol Steedman, with KGC Associates for her work. Carol does all the accounting and because of her record keeping they were able to obtain the loan. Carol worked with him on the budget and she is continually on the phone working with the Board and the shareholders.

Mr. Cylvick noted that Eric Anderson has been on the Board for five years and he has now resigned. Mr. Anderson was pivotal in getting the loan and he was an asset on the Board.

Mr. Cylvick stated that Brian Zelch ran unopposed for Mr. Anderson's seat and he will be the newest member on the Board.

Mr. Blonquist commented on the amount of time the Board spends without pay working for the Water Company. They do a good job and they have taken the Water Company and the water system to the next level. It takes a tremendous amount of their spare time and sometimes they take away time from their own businesses to run the Water Company. Mr. Blonquist thanked the Board for what they do.

MOTION: Eric Cylvick made a motion to APPROVE the financials as written in the handout for the 2009 budget. Paul Allen seconded the motion.

VOTE: The motion passed unanimously.

The annual meeting was adjourned.