

Approved
November 8, 2018
as written

PINE MEADOW MUTUAL WATER COMPANY
BOARD OF TRUSTEES ANNUAL WATER MEETING
THURSDAY, NOVEMBER 2, 2017
KIMBALL JUNCTION LIBRARY
SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick, Steve Anderson, Bill George – Board Members;

Ex Officio: Trevor Townsend, Carol Steedman with KGC Associates, Administrative Secretary

Eric Cylvick opened the Annual Meeting at 6:35 p.m. and introduced the Board members. He also noted that Cal Cragun, a Board member for many years, had to resign from the Board due to personal issues.

Mr. Cylvick noted that George Sears was present. Mr. Sears was the Board President prior to Mr. Cylvick, and he was instrumental in getting the Bylaws and the Rules and Regulations drafted. He was also responsible for starting the Pine Meadows Mutual Water Company when it was formed after the Special Service District was dissolved.

Mr. Cylvick pointed out that Steve Anderson is a civil engineer specializing in water. Mr. Anderson stated that he has designed water systems and has worked with all types of water civil engineering projects. Mr. Cylvick noted that Mr. Anderson's expertise has been an asset. He recently suggested that they look at all the sources where they get water and to allocate repair and maintenance costs to each source individually to make it easier to track the cost of each source and the primary reason for the cost. Mr. Anderson had also spent considerable time analyzing all of the metered and standby water assessment information. On the information provided this evening, the first page was the current, and the second page was what Mr. Anderson had suggested in terms of rates, which would be discussed later in the meeting.

Approval of 2016 Annual Meeting Minutes

MOTION: Eric Cylvick moved to approve the Annual Meeting Minutes dated Thursday,

November 10, 2016 as written. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

Approval of Financials for 2016.

Mr. Cylvick noted that the financials included the Profit and Loss and the Balance Sheet. He thought the administration fees were self-explanatory. Carol Steedman explained that the Finance Charge income came from late fees billed at 1-1/2% per month. The Resumption of Service Income is paid through the buyer when a property is sold. The buyer pays \$50 to the Water Company to have the service put into their name.

Mr. Cylvick commented on the breakdown of the Water Assessment into various categories. He explained that when he became President the metered and standby water assessments were shown as a lump sum, and it was difficult to know where the bulk of the funds were coming from. Carol prepares a breakdown of the water assessments so they could track where the money was coming from and in what years. He pointed out that the breakdown goes back 5 years on the Excess Water. The Metered and Standby breakdown goes back even further. Mr. Cylvick remarked that the breakdown gives an idea of what was collected in 2016; and what was collected from 2010-2015.

Mr. Cylvick stated that Water Connection Fees and Annexation Fees are the fees charged to annex into the Water System. The fee is charge to people who are outside the Ranch and have not been members of the Pine Meadow Mutual Water Company. If the Water Company determines that they can service the lot based on engineering, they charge the lot based on all the standby assessments that everyone else on the Ranch has paid. In order to become a member, the owner pays into the Water Company what everyone else has paid through the years. Mr. Cylvick pointed out that there were no annexations in 2016. He recalled that two annexations were the most they have ever had in one year. Based on the current fee schedule, the annexation fee was \$18,152; plus, a hookup fee of \$6662 and a connection fee of \$1920.

Mr. Cylvick noted that the metered assessment is paid by lots that have meters, and the standby assessment is paid by lots without a meter. The Excess Water charge is paid by anyone who exceeds the allotted amount.

Mr. Cylvick commented on the principal and interested paid on the loans with the Division of Drinking Water. He explained that the Water Company had secured two

different 20-year loans at 3% interest at approximately \$3.6 million each. The loans were used to improve and upgrade the water system. They obtained one loan initially, and then a few years later they obtained a second loan after the engineering firm revised the overall project list and costs. Mr. Cylvick stated that it was projected to take 23 years to complete the Master Plan. When he came on the Board he and George Sears looked at it realistically and determined that it was more like 28 years. The cost of those projects over 28 years was in the \$10-20 million range. At the time the Water Company was spending \$150,000 per year for repair and maintenance. When he did the calculations, he determined that what they were spending each year would pay for at least \$3.7 million of debt. The Water Company raised the rates to accommodate the loan, and then again when they realized they needed to secure another loan. Mr. Cylvick reported that 20% of the loan is paid out through the State Division of Drinking Water and 80% is paid through the Federal Division of Drinking Water. Applying for the loan was a major process, but they were granted the funds because the Water Company had great financials and cash on hand. The Division of Drinking Water found them to be a good candidate and a low risk for these loans.

Mr. Cylvick noted that Secretarial Services was the cost for Carol to handle the administrative matters for the Water Company. He stated that the Water Company has two full-time employees; Brody Blonquist, and Trevor Townsend.

Mr. Cylvick stated that the Restricted Fund Balance is cash that is set aside. The State requires that they set aside approximately \$1900 per month as escrow for the loans until they accumulate \$300,000. The money belongs to the Water Company and it can be used if necessary.

Mr. Cylvick commented on the Existing Water Shares. He explained that every year the Water Company pays for Water Shares through Weber Basin. The Board had budgeted \$46,000 but the rates were increased, and the budget cost for this year was increasing to \$57,000. Mr. Cylvick stated that he has been working with their attorney to try to decrease the amount of water shares that the Water Company actually pays for and carry. One problem is that those water shares were used as collateral for the loans so they are currently tied to that number of water shares. The downside is that the Water Company has a limited amount of water supply, and they could never enough water to pay for 268 water shares. Mr. Cylvick stated that he was trying to renegotiate the contracts so they would only pay for the water they can pump. At a 100% duty cycle, they would only have to pay \$7,000-\$10,000 worth of water shares as opposed to \$49,000. If they need water they could purchase it from Mountain Regional.

Mr. Cylvick stated that \$50,000 was put into a fund for repair and maintenance. They

have started contributing to another fund for water purchase, so they can purchase water from Mountain Regional if and when they ever need to. The goal is to build up the Restricted Fund Balance. If he succeeds in his negotiations, Mr. Cylvick would put the money they would not have to pay to Weber Basin Water Conservancy District into the Restricted Fund Balance.

Mr. Cylvick remarked that one of the reasons Mr. Anderson had suggested breaking down the cost per source was to do a comparative analysis of whether it is less expensive to buy the water at \$13,000 per million versus maintaining the wells and pumps.

Mr. Cylvick pointed out that the water system was out of the construction stage and into maintenance mode. The cost of repair and maintenance for 2016 was \$17,522; not including utilities. In the past they were spending \$150,000 on digging up pipe and replacing it.

MOTION: Eric Cylvick made a motion to Approve the Profit and Loss/Budget versus Actual for the year of 2016. Bill George seconded the motion.

VOTE: The motion passed unanimously.

Mr. Cylvick reviewed the Balance Sheet. He indicated properties owned by the Water Company that were assigned from the Special Service District to protect their water sources. The majority of the properties were above Bobcat Springs. Mr. Cylvick explained that the Water Company redeveloped Bobcat Springs as part of the Master Plan. However, when they were digging Bobcat Springs it became obvious that it was not really a spring. That whole area is clay with four feet of top soil. The well was not producing enough water and what they did get was contaminated. For that reason, they do not use Bobcat Springs as a source.

Mr. Cylvick pointed to the amounts of the two loan balances at the end of 2016. They had paid approximately \$1 million.

Mr. Cylvick reported that he had negotiated a deal with Mountain Regional. The Water Company paid for the water line and all the construction of the water line. He had negotiated an easement agreement with Fred Bacon, the highest landowner in Stagecoach. It turned out from the research he had done with Evergreen Engineering that the HOA owned a narrow strip of land along the south side of the Pine Meadow property. There was also a road easement that was created when the Ranch was originally platted. The road easement was between Larry Woods and Bob Merrill's

property by A-plat. The narrow strip of land went right up to Fred Bacon's property. Mr. Bacon had a driveway going up to the corner of the lot. He met with Mr. Bacon multiple times and negotiated an agreement where Pine Meadow Mutual Water Company paid his outstanding balance with Mountain Regional for a one-time assessment of \$30,000 to shareholders at Stagecoach to improve their water system. In return, Mr. Bacon granted the Water Company an easement to use his driveway as an emergency exit into Stagecoach and down onto Church Street. He also allowed the Water Company to run a water line down his eastern property line and connect it to the Mountain Regional water system. The Water Company also paid to put up a wood fence along Mr. Bacon's property line.

Mr. Cylvick stated that he met with Mountain Regional multiple times. Mountain Regional had 12 lots in upper Stagecoach that they could not supply fire flow. Pine Meadow Mutual Water Company offered to supply the top 12 lots with fire flow; and in exchange, Mountain Regional offered to bank that water and send it whenever Pine Meadow needs it. Mountain Regional has the ability to pump 1000 gallons per minute into Pine Meadow's 500,000 gallon tanks.

Mr. Cylvick noted that he made the motion in 2016 to put the agreement with Mountain Regional in place when it became obvious that the Water Company could not find any other sources. It was the only way to ensure that they could supply water to every lot at build out.

Someone wanted to know how many more cabins could hook up to the existing system before the Water Company would have to purchase water from Mountain Regional. Mr. Cylvick replied that if a massive leak drained the 500,000 gallon tanks it would take forever to fill it back up. They have already banked almost half a millions dollars with Mountain Regional. Mr. Cylvick stated they have hit that critical point for a massive leak. In terms of normal usage, Mr. Anderson stated that at build-out, which would be approximately 800 units, each lot could not on average use more than 30,000 gallons per year. It assumes that most of the usage is throughout the year; however, that is not the case because in the wintertime a number of the houses are not occupied. Mr. Anderson thought that number could go down to 20,000 gallons per year. He estimated that they were at 5.5 million gallons per year now; which is approximately 15,000 gallons on average for those who currently have cabins. The Water Company currently serves 496 cabins.

Mr. Cylvick noted that at 100% duty cycle they could pump 22 million gallons. That means if every source could run 24 hours a day, they could only pump 22 million gallons.

Someone understood that the reason they purchased water shares originally was based upon a built-out, and there is a value associated with them. Mr. Cylvick remarked that a value identified on the balance sheet, but there is actually no value to the shares. The logic behind reducing the amount of shares is to pay only for what the Water Company can actually pump. The shares are not a commodity that can be sold. They get relinquished back to Weber Basin. The water shares show as an asset on the books and they can be used as collateral, but it is an actual expense.

Someone asked if the Water Company could be faced with the decision on whether to merge with Mountain Regional within the next three to five years. Mr. Cylvick stated that in looking at the numbers, purchasing water from Mountain Regional is the same cost as repairing and maintaining the pumps and wells. He clarified that he was not suggesting that the Water Company would abandon its sources. Mr. Cylvick noted that he was currently working with the attorney to develop an MOU, which would be a negotiated agreement with Mountain Regional saying that the Water Company has the ability at any time to annex in, and the unimpeded right to purchase water for any reason.

Someone asked for the ratio of full-time residents to part-time residents. Carol replied that it was 130 full-time residents. She noted that the majority of the water is used by the part-time residents. Mr. Anderson stated that they needed to start encouraging conservation because there is not an endless supply of water and they do not have a hard agreement with Mountain Regional at this point. Mr. Cylvick remarked that it was important to do both; encourage conservation and negotiate a hard agreement with Mountain Regional.

MOTION: Eric Cylvick moved to Approve the Balance Sheet per the previous year as of December 31, 2016. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

Mr. Cylvick reviewed the Profit and Loss/Budget Versus Actual Year-to-Date Comparison. Carol noted that this was also the 2018 budget. She explained that they were comparing the 2016, 2017, and 2018. Mr. Cylvick noted that the first column is the actual spent; the second column was what was budgeted; the third column is the percentage of the budget over or under. The fourth column was the actuals for 2017; what was budgeted for 2017, the percent difference. The last column was the 2018 proposed budget.

Bob Burdette referred to page 2 of the year-to-date comparison. He noted that the water hookup fees from January to November 1, 2017 was \$13,800 in income. On page 4 there was a meter installation expense for that same period of \$24,870. He asked if they should be charging more for the water hook-up fee to cover the expense of installing the meter. Mr. Cylvick indicated the water hook-up fee on page 2 of \$13,873 and added that to the above number, which was the impact fee of \$48,127. Those two numbers added together was the amount charged to put in the meters; and that number goes against the budget of \$24,870. Mr. Cylvick pointed out that the impact fee is now called a connection fee. It has to do with digging up the road, installing the water lines, and refurbishing it; as well as the wear and tear on the water system.

Mr. Burdette referred to the Equipment Purchases item on page 4 in the amount of \$12,821. Trevor stated that they purchased an air compressor and a mole with a rock hammer on the end. It was used four times this year on the main roads. It enables them to dig up the water meter on the other side of the road and only dig in the location of the waterline. They set it in the ground and it pulls itself through the ground under the road.

Mr. Cylvick referred to the budget and noted that they always show a loss because they do not want to over-estimate the income. They have been able to fund the Capital Reserve Funds. Some years they show excess income, which is deposited into the Capital Reserve Fund, and other years they break even. They have never been in the red by more than \$1500.

Carol noted that 2016 was the last year for the last draw from the loan. Nothing more can be drawn. Mr. Cylvick stated that the last two projects were the connection to Mountain Regional and connecting the 500,000 gallon tanks to the 200,000 gallon tanks on Windy Circle so they could pump and back feed large quantities of water. They can also pump more water up to the 200,000 gallon tanks faster since they are now connected to Mountain Regional. Mr. Cylvick reported that they had also negotiated an easement agreement through a private property to achieve better water pressure in I-Plat.

Mr. Cylvick asked if there were questions on the 2018 Budget as proposed. He pointed out that after working through the numbers they ended up with a \$59,000 loss because he preferred to be more conservative.

MOTION: Eric Cylvick moved to Approve the 2018 Budget. Bill George seconded the motion.

VOTE: The motion passed unanimously.

Mr. Cylvick reviewed the Balance Sheet year-to-date. They had not yet funded the Capital Reserve for the year. He suggested that they could make a motion this evening to fund the reserve. Carol noted that the 2017 Budget was set for \$22,500 into the capital reserve. Mr. Cylvick asked if the Board had previously made a motion to approve the 2017 contribution. Mr. Anderson stated that the Board had approved it this year, but was approved last year when they approved the 2017 Budget. Carol asked if it should remain at \$22,500. Mr. Cylvick answered yes.

MOTION: Eric Cylvick made a motion to keep the 2017 contribution to the Capital Reserve at \$22,500. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

Carol noted that the budget for 2018 showed the same amount of \$22,500.

Manager's Report

Trevor Townsend reported that he and Brody had been busy this year with water connections. They anticipated quite a few more for next year. Trevor stated that they were looking at one or two annexations next year. He anticipated a busy year next year. Trevor stated that he and Brody put in 13 new connections this year.

Trevor stated that a fire hydrant blew off in April on Pine Meadow and they lost approximately 440,000 gallons of water.

Mr. Cylvick noted that Pine Meadow Water and Mountain Regional tied their telemetry systems together. Trevor explained that Mountain Regional can look at the Water Company's tanks and if the water is dropping fast the Mountain Regional system will alert Brody and Trevor and whoever is on call for Mountain Regional. The person on call for Mountain Regional got the alert first and called Brody at 5:00 in the morning to inform him that their water was dropping rapidly. It had almost drained the 500,000 gallon tank before they were able to find it. Trevor stated that it was the biggest leak this year and it was huge. He noted that money was banked with Mountain Regional and within two days the tanks were full again. Mountain Regional pumped just over 400,000 gallons of water in two days to the Water Company.

Mr. Cylvick stated that the level of communication between Mountain Regional and the

Water Company was amazing. There is less uninterrupted service because the Water Company has spent the last 17 years learning the system and improving on it to keep it running throughout the entire year.

Mr. Cylvick stated that Brody and Trevor have done a fantastic job keeping the expenses down, staying on budget and keeping everyone with water. They understand the system. Mr. Cylvick remarked that the General Manager and upper Management of Mountain Regional have commented on how they think Brody and Trevor are professionals and how much they like working with them.

Rates

Mr. Anderson stated that he had taken all the meter readings for the year 2016 and 2017 and did a breakdown into who was using the most water, what the different categories were, and how much each group was paying for water. He pointed out that the numbers take into account some leakage. Mr. Anderson noted that in 2016, 8 meters used 10% of the water. Mr. Cylvick asked if he had differentiated leaks from usage. Mr. Anderson replied that it was difficult to determine the difference with the information he had.

Trevor stated that they just started metering all the sources this year; so the base was actually starting in August. They should be able to do a solid audit next year and get the loss versus meter.

Mr. Anderson remarked that as mentioned earlier, the Water Company is limited on sources. He thought there were certain units that just use a lot of water. His goal was to differentiate who was using the most water, who was not using the water, and who was paying for water. He found that 1% of the meters were using 10% of the water. Mr. Anderson suggested that they look at a conservation rate, and start charging more for water once the usage surpasses what the system could supply if it were at build out. Buildout would be somewhere around 800 homes and they should use that as a general number. The rate, based on full pumping year around, would be approximately 30,000 gallons per unit. At 30,000 per unit, they would want to discourage people from using water because it takes the system beyond its capacity. Mr. Anderson had prepared a chart showing an increased rate above 30,000 gallons. Mr. Cylvick had shown the current rate and the rate being proposed.

Mr. Anderson stated that the proposed rate at 40,000 gallons would be 5.5 cent per gallon; or \$55 per thousand gallons. At 50,000 gallons the rate would increase to \$60 per thousand gallons. In his opinion, 60,000 gallons would be excessive use and he

proposed increasing the rate to \$100 per thousand gallons. At 70,000 the rate would be \$150 per thousand gallons. Mr. Anderson believed the increased rates would discourage people from using too much water. It would also reimburse the Water Company for heavy users, such as someone with a swimming pool or spa, because it costs more and creates more wear on the system.

Mr. Cylvick commented on the pool issue. He noted that a 20,000 square foot house might be going in with a pool. Another house being built on Elk Road is over 20,000 square feet with an indoor pool. Mr. Cylvick pointed out that currently there are two options for homes with pools. The first option is for the owner to bring in a tanker and fill the pool. The second option is for the owner to open up the one inch hose line to fill the pool. The Water Company will not allow filling a swimming pool from a hydrant. Mr. Cylvick stated that if the owner informs the Water Company ahead of time, the water could be purchased from Mountain Regional, which is the reason for the increased rate for excessive use.

Mr. Burdette noted that the water would still be transported through the Pine Meadow system and they would be using all their resources to deliver that water to a home. Mr. Anderson agreed, which is why he had escalated the cost for that type of use.

Someone asked how they would keep other people from wanting to water gardens and lawns if someone else is allowed to fill a pool. Mr. Cylvick replied that the pools are indoor, and according to the Bylaws it is considered indoor use.

Mr. Cylvick stated that his intention this evening is to vote on increasing the rates as an immediate solution until they can come up with a better solution. If the Water Company can purchase the water from Mountain Regional and make \$30,000 on a few large homes paying the increased rate, that is how a lot of other water companies survive. There was not disagreement, but someone wanted the Board to understand that it would open up a door and expose the Water Company to other problems. Mr. Cylvick reiterated that this option would not apply to any pool outdoors. It would have to be an indoor pool or spa.

MOTION: George Sears moved to Approve the rate increase as proposed. Eric Cylvick seconded the motion.

VOTE: The motion passed unanimously.

Carol asked if the rate increase would be effective in 2018. Mr. Cylvick asked Mr. Sears to clarify that this rate increase would be effective January 1, 2018.

AMENDED MOTION: George Sears amended his motion to make the rate increase effective January 1, 2018.

Carol noted that the new fee schedule also needed to be approved. Mr. Cylvick pointed out that every year they increase the annexation fee by one standby fee.

MOTION: Eric Cylvick moved to increase the Annexation Fee by one standby fee. George Sears seconded the motion.

VOTE: The motion passed unanimously.

MOTION: Eric Cylvick moved to Adopt the Assessment Fee Schedule, effective January 1, 2018. George Sears seconded the motion.

VOTE: The motion passed unanimously.

Board Elections


Mr. Cylvick noted that he was running for re-election as a full-time resident. Duane Yamashiro was running for election as a full-time resident. Scott Smith was running for election as a full-time resident. Steve Anderson and Bruce Hutchinson were running as part-time residents. Mr. Cylvick stated that because many of the Board members travel it is often difficult to get a quorum for the Board meetings. He noted that Duane Yamashiro and Steve Anderson were appointed this year after Cal Cragun resigned and Craig Gilliam moved away.

Mr. Cylvick thanked those in attendance for coming. The Board was also thanked for their time and efforts.

The Annual meeting of the Pine Meadow Mutual Water Company adjourned at 7:57 p.m.



Minutes Approved



11/8/18