Approved
November 8, 2018
as written

PINE MEADOW MUTUAL WATER COMPANY

BOARD OF TRUSTEES MEETING

THURSDAY, OCTOBER 11, 2018

SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick, Steve Anderson, Tom LeCheminant – Board Members.

Ex-Officio: Brody Blonquist; Trevor Townsend; Carol Steedman

Excused: Scott Smith; Duane Yamashiro

Guest: Chris O'Rourke, Lot E-16

Eric Cylvick called the meeting to order at 6:30 p.m.

Public Forum

Lot E-16

Brody Blonquist noted that the Water Company had drilled a well near Bobcat Springs for the Division of Drinking Water loan. He stated that in addition to drilling the well, the Water Company also cut a road coming down into the well. Lot E-16, Chris O'Rourke's property, borders the Water Company property. Brody stated that when he and Trevor installed Mr. O'Rourke's meter, he told them he was getting ready to cut his driveway. Mr. O'Rourke discussed with Brody the possibility of using use the Water Company's road to access the property. Brody suggested that he come to a Board meeting to request an easement across the Water Company's property to use it as a driveway. Brody stated that Lot E-17 is a source protection lot and it cannot be built upon.

Mr. Anderson asked if the well would impact use of the driveway. Brody replied that the well has been dead-headed, which means it is an abandoned well.

Mr. O'Rourke stated that he was thinking about asking for an easement at the top corner of the property. However, Brody suggested using the Water Company property as a much better solution. Mr. O'Rourke noted that he plans to build on Lot E-16. He currently has a recreational trailer parked on his lot.

MOTION: Eric Cylvick made a motion that Chris O'Rourke, Lot E-16, pay the cost to have an easement agreement drafted by an attorney for the Board and their attorney, Ted Barnes, to review. Mr. O'Rourke would also be responsible to pay the cost of the Water Company attorney. In the meantime, the Board would consider any ramifications. If there are no ramifications the Board could consider granting the easement after following the proper steps.

Mr. O'Rourke asked Mr. Cylvick if it would be faster if he worked directly with the Water Company's attorney. He did not have his own attorney but he could hire one if the Board preferred. Mr. O'Rourke was not opposed to paying the legal fees. He stated that the easement would allow PMW to access the property whenever they wanted and use it any way they wanted. However, he would like the ability to put up a gate to keep people who should not be up there off the property. Mr. Cylvick remarked that the gate should be installed on the edge of Mr. O'Rourke's property; not the Water Company property. Mr. Cylvick clarified that the Water Company would not request compensation for use of the property, except for payment of the legal fees. He emphasized that if Mr. O'Rourke installs a gate it should not be on Water Company property.

Mr. O'Rourke asked if he could do grading and lay rock. Mr. Cylvick stated that he could make improvements as long as it does not interfere with the Water Company and Brody and Trevor have no issues with what he plans to do.

Mr. Anderson remarked that the Water Company needed a solid waiver of liability so they were not taking on any liability issues. Mr. Cylvick asked Brody to send him an email reminder and he would contact Ted Barnes. Mr. O'Rourke reiterated that it would be easier for him if he could work directly with the Water Company's attorney. Mr. Cylvick stated that he would contact their attorney, Ted Barnes, and ask him to draft an easement agreement.

Mr. O'Rourke expressed his appreciation to the Board for the opportunity to use the property. Mr. Cylvick asked about a survey. Mr. O'Rourke replied that his land had already been surveyed. He suggested that Mr. O'Rourke arrange to have Brody on site when his surveyor surveys the driveway. Once the survey is completed and Mr. O'Rourke provides the recorded information, Mr. Cylvick will send it to Mr. Barnes and he will draft the agreement. Mr. Cylvick recommended surveying the three corners on the upper end and the driveway.

Unpaid Bills

Brody Blonquist reviewed the unpaid bills. The invoice from Ferguson Enterprise were meter parts. Horrocks Engineering was for the maps. KGC Associates was Carol's services. Mountainland Supply was for the final purchase of meters. Pine Meadow

Mutual Water Company was the Escrow Account for the loans. Rocky Mountain Power was the power bill. Select Health was the health insurance premium. Summit County Public Health Department were three months of water samples. Tak Technology was an annual payment for the program to do meter readings. USA Bluebook was still showing a credit for the returned tank transducer. White's Auto Parts was for windshield wipers and washer fluid. Utah State Division of Finance were the two loans.

MOTION: Eric Cylvick moved to Approve the unpaid bills dated October 11, 2018. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

Financials

The Board reviewed the Profit and Loss/Budget versus Actual. Mr. Anderson asked if building repairs was only for the shop. Brody explained that many things, such as shovels or other items from Home Depot, were all put under building repairs. He and Carol had worked on a way to break it out little better. Carol thought the building repair expense also included some upgrades. Brody stated that the bathroom had to be redone because the roof was leaking and they had black mold.

Mr. Cylvick asked about the vehicle expense on page 2. Carol replied that it covered payments to White's Auto Parts and CJ Reese. The expense was primarily due to a hoist and a toolbox.

MOTION: Eric Cylvick moved to Approve the Profit and Loss/Budget versus Actual dated October 11, 2018. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

The Board reviewed the balance sheet.

Mr. Cylvick asked if Carol could label the different accounts. He asked about the Capital Water Reserve. Carol explained that the Capital Water Reserve are the funds to purchase water. Mr. Cylvick asked about the money market. Carol replied that the money market was left over from the loan. The State of Utah would send money into the money market and she would distribute it into the actual checking account. She pointed out that the money market and the Brighton checking account were in the same bank. Carol stated that it was similar to holding the fees for the legal reserve. For ease of accounting and tracking the money, she left the money with the notation of legal reserve. Mr. Cylvick preferred to label the money market as Legal Reserve.

Carol explained that all of the checks are written out of the Zions operating account. They transfer out of the Brighton account because it has all of the credit card processing capabilities, and it is also part of the loan that was set up in 2006. For security purposes, Carol felt it was better to have all the money come into one account and then transfer funds into an operating account.

Mr. Cylvick clarified that all the accounts would be labeled for the Annual Meeting. Carol answered yes. Carol further explained that when a credit card is processed it goes directly into the Brighton account. When the amount gets closer to $100,000, funds are distributed to Zions operating account to pay bills for the next three months. Mr. Anderson wanted to know where the money goes when people pay by check. Carol replied that all checks go directly into the Zions account. Carol clarified that she distributes out of the Brighton account and operates from the Zions account.

MOTION: Steve Anderson moved to APPROVE the Balance Sheet dated October 11, 2018. Tom LeCheminant seconded the motion.

VOTE: The motion passed unanimously.

Manager's Report

Brody reported that the property owner building at the top of the hill was stealing water from his neighbor's meter. He asked if the Board wanted to bill the property owner $500 for theft of service. Mr. Cylvick thought they should bill this property owner the $500, but raise the amount to $2500 for future offenders. Brody explained that Tom LeCheminant took a picture and sent it to Carol. Carol contacted the homeowner, Lot E88, across the street, and he had no knowledge that his water was being stolen. Brody told the neighbor to file a police report, but he was unsure whether he had.

Brody suggested that they bill the property owner $500 for the theft of service. He pointed out that even if the neighbor had given permission, it is prohibited in the Bylaws. Brody stated that in addition to the $500 for theft of service, he should also be billed for the1200 gallons of water that went through the meter.

Eric Cylvick increased the theft of service on the fee schedule to $2500, to be approved at the Annual Meeting.

Brody read from the Bylaws, "All theft of water shall also be punished in accordance with the laws of the State of Utah".

MOTION: Eric Cylvick moved to bill the property owner of Lot PI-E-30 the $500 theft of water fee plus usage of water at 1200 gallons. Tom LeCheminant seconded the motion.

VOTE: The motion passed unanimously.

Mr. Anderson stated that as part of the fee update, they should charge a high rate for the stolen water. Mr. Cylvick suggested that they table that discussion until after they decide the tiered rates. Once they determine the highest tiered rate, it could be applied to the 1200 gallons.

Water Rates

Mr. Cylvick commented on the work Carol had done and noted that they now have a full year's worth of data. Mr. Cylvick stated that the tiered water does not generate much money because only a small number of shareholders exceed 20,000 gallons. Therefore, it is hard to make up the difference. Mr. Cylvick remarked that previous Boards thought the standby and the base rate paid for the water system and that is money they count on. He pointed out that currently they were only bringing in $57,000 in excess water usage. Mr. Cylvick did not think they would ever have a huge amount of excess usage. He believed most people would keep their usage close to 20,000 gallons. People try to conserve water and he estimated that most owners would be in the range of 20,000-40,000 gallons.

Mr. Cylvick believed they should keep the thought that the standby and the meter pays for and sustains the bulk of the water system. In terms of tiers, the logic was always if someone used 21,000 gallons, they were only paying for 1,000 gallons of excess water. Mr. Cylvick thought people should pay two or three times the cost of purchasing that water from Mountain Regional. He stated that if it costs $11 to buy 1,000 gallons of water; the cost of each 1,000 that exceeds 20,000 gallons should be $22 or $33 per thousand gallons. He clarified that it was only a thought based on logical thinking.

Mr. Anderson thought the tiers were more punitive rather than a way to make money. He assumed that the 20,000 gallons was calculated on the fact that there are a specific number of gallons available to the system per year. That number divided by 790 lots equals 20,000 gallons. Mr. Cylvick replied that it was not calculated in that way. Originally, the base rate was 10,000. As they increased the rates, the base went from 10,000 to 15,000 gallons. When the rates were increased again, it went from 15,000 to 20,000 gallons.

Mr. Anderson stated that even if it was not the way it was originally calculated, they should remember that at buildout everyone has 20,000 gallons. He thought they should try to discourage using more than 20,000 gallons because that is all the water they have.   Mr. Cylvick did not disagree with the logic because it has good basis. Brody noted that the logic also addresses owner reduced requirements, because the reduced requirements are measured at full buildout, not what is currently available. Mr. Cylvick stated that currently they could pump approximately 16 million gallons.

Mr. Cylvick favored keeping with the 20,000-gallons base at this point. He thought they should keep with the idea that the standby and the metered assessments pay for the bulk of the usage. The tiers should be punitive and considered additional income. Mr. Cylvick explained how he had calculated his latest iteration. He went from 20,000 to 30,000 to 40,000 to 50,000 gallons, and on up in increments of 10,000.   He started at $33 per 1,000 gallons and gradually increased the cost to $44, $55, $66, $77 for excess usage based on the number of gallons used over 20,000 gallons. Mr. Cylvick remarked that he was open to other suggestions from the Board, but he thought his calculation simplifies the process and provides a basis. He asked whether the Board thought it was a logical way of looking at the standby, the metered, and the tiers.

Mr. LeCheminant thought the metered and the standby should cover the budget. Mr. Cylvick stated that they have a history of tiers. In the proposed budget for 2019 they were counting on all the water connections, the annexations, and the water hook-up fees. Based on the upcoming budget, even without additional building, they could still fund the capital reserve, the legal reserve, and the water purchase. Mr. LeCheminant stated that one of the purposes for rewriting the CC&Rs is to eliminate the rental cabins, which is approximately the majority of the over-usage. He questioned what they would do if they lost that amount.

Mr. Anderson did not believe they would lose much of that excess usage. Mr. Cylvick had mentioned numbers that would produce $823,000 in revenue, which is $73,000 over what was budgeted for 2019. Mr. Anderson believed there was extra money in the budget because the connection fees shown in the budget should come out of the connection fee budget; not out of the operating budget. He believed at least $20,000 should not be in the budget. Based on Mr. Cylvick's numbers, Mr. Anderson thought they could produce an additional $100,000 in excess water fees.

Carol noted that the tiers are addressed in the Rules and Regulations. It talks about a base charge and additional charges. She read, "Any quantity of water used by shareholder in excess of the established base shall be subject to a specific usage charge or overage assessment based upon the amount of water use." Carol pointed out that the Board could not eliminate the tiers because they were set in the Rules and Regulations. However, they could set the tiers to how the water is used, which is what Mr. Cylvick was trying to calculate. Mr. Anderson clarified that it could be in tiers. Carol replied that it should be in the first three tiers.

Mr. Cylvick reviewed a sheet he had prepared. He noted that the top box showed the amount Mountain Regional charges in Stagecoach. They charge a $75 monthly rate for having a meter. Stagecoach has a monthly infrastructure assessment. Mr. Cylvick stated that he used Stagecoach as the example because Stagecoach is very similar to Pine Meadow Water. They had Mountain Regional take over their water system and redo their water system. Stagecoach has water loans with the Division of Drinking Water like Pine Meadow Water. Mr. Cylvick stated that the $143 per year infrastructure assessment for Stagecoach is basically a special assessment that totals $1700 per year. That money pays for the loan and all the infrastructure. Brody pointed out that the $143 will be paid for 20 years. Mr. Cylvick noted that Stagecoach also pays a $121 per month for a pumping surcharge because they are higher up in elevation. Mr. Cylvick stated that the cost of water is $1.75 per 1,000 gallons, up to 60,000. Therefore, they pay $70 per year for water, but in addition to all the other charges, Stagecoach owners actually pay Mountain Regional $2800 per year.

Mr. Cylvick stated that 40,000 gallons at $2800 per year result is 7 cents per gallon for water in Stagecoach.

Mr. Cylvick referred to other numbers on the bottom of the sheet that reflected the current fee schedule for Pine Meadow Water. Again, he had used 40,000 in his example. Mr. Cylvick explained that he used 40,000 based on the idea that a family of four will typically not exceed 40,000 gallons. Mr. Cylvick indicated the potential new fee schedule on the right side of the sheet. Mr. Cylvick pointed out that the standby and the metered rates were $832 per year, or $69.33 per month. Going from 20,000 to 40,000 gallons generates an additional $750 for a total annual rate of $1,582.

Mr. Cylvick reviewed the proposed new fee schedule and noted that he had raised the standby and the base by 25%. He had changed the tiers to even them out. He pointed out that the tiers only generated a small amount, but he had used the same logic he explained earlier in the discussion for excess usage. Mr. Cylvick noted that under the new structure, if someone uses 40,000 gallons, they would pay $1810; rather than the $1,582 under the old structure. He stated that Carol had input those numbers, bringing the budget in the black. Mr. Cylvick remarked that he and Carol compared their calculations, and both delivered the same result in terms of having a $25,000 surplus, which would go into the legal reserve fund or the capital reserve fund.

Mr. Brody commented on the special assessment for Stagecoach and noted that Pine Meadow Water had given its shareholders the option of a special assessment or incremental rate increases. The shareholders chose incremental rate increases over time. Mountain Regional did not offer Stagecoach that option. Mr. Cylvick thought the

Water Company had done a good job without having to charge the shareholders $30,000 per lot.

Mr. Cylvick stated that the issue was that for five or six years they had construction loan money. Carol had done a great job keeping the loan funds separated from the operating funds. They knew the loan would eventually end and that they would have to operate for two or three years to determine the actual cost to run the water system. Mr. Cylvick recalled that the last large project was to work on the pumps at the 500,000 gallon tank so they could back feed the 200,000 gallon tank to the 500,000 tank.

Mr. Cylvick stated that they knew they were going to have to make some adjustments. If they pull out all the impact fees, water connection fees, and the annexation fees and they try to cover the difference, Carol's calculation showed a $197,000 gap. Mr. Cylvick remarked that the Board needed to determine a percentage increase. He reiterated his example of a 25% increase for standby and metered. Mr. Cylvick stated that a 25% increase for standby results in a $12.83 increase per month or $154 per year. A 25% increase for metered results in $17.33 per month or $208 per year.

Mr. Cylvick noted that they currently have $251,000 in the capital reserve fund, and $48,000 in the water reserve fund to purchase water. They also have an extra $31,000 for the legal reserve fund. Mr. Cylvick remarked that the water reserve will be paid for in two years. He noted that the $1800 per month paid into the debt reserve could flow back into the operating budget. The $22,000 that goes into the water reserve money would flow back into the budget.

Mr. Anderson asked how many years were left on the loan. Carol replied that the first loan was in 2006 and the second loan was 2012. The loans were consolidated, but she believed they would be paid off in 2032. Mr. Cylvick thought it was 2042. Mr. Cylvick thought they could use some of the money to pay down the debt. Carol agreed that they could pay down the loan and she could do the necessary DDW paperwork. Mr. Cylvick stated that unless there is a dramatic change, they may not have to increase the rates. If they get an influx of cash into the operating budget in two or three years, they might not have to increase rates for six years, they would be paying down the loan, and they would have a nice capital reserve.

Mr. Anderson agreed with Mr. Cylvick and he fully supported getting financially stable. However, he was still unclear on a few things from an accounting standpoint. He understood that there were 259 standby lots. Carol stated that there were 306 standby lots and 496 metered lots. Mr. Anderson asked if there were lots identified as metered but the meters were not connected. Carol replied that 24 lots were identified as metered but not connected, and those lots pay a standard metered base fee. Those lots were included in the 496 metered lots. Mr. Anderson stated that based on last year's water use, they should have a revenue of $860,000 based on the numbers Mr. Cylvick presented. Mr. Cylvick stated that he had calculated the increase by multiplying $154 x 306 lots. He explained that $154 was only the increase. If he multiplied $170 x 306 lots, the total would be $235,620. Mr. Cylvick calculated additional numbers and noted that the standby plus the base rate income would be $751,460.

Mr. Anderson thought people would want to see the numbers to justify a 25% increase. He suggested that they take the connection fees out of the budget. Carol replied that she had already done that. The expense was showing at $798,000 without any income.

Mr. Cylvick stated that minus the legal reserve, $44,500 will flow back into the operating budget as soon as they fund the other two reserves. He remarked that the water shares increase 15-20% a year, and that presents a budgeting problem because the cost is unpredictable.

Mr. Cylvick asked the Board for their thoughts on the 25% for standby, 25% for metered, and changing the tiers to a more logical basis. The basis for the tiers is that for every 1,000 gallons used between 20,000-30,000 gallons, the excess usage cost would be the cost of purchasing 3,000 gallons of water from Mountain Regional. The tiered amount increases in 10,000 gallon increments. Mr. Cylvick pointed out that the higher tiers would actually be less than what would be owed currently, but the usage never reaches that amount unless someone has a leak. Mr. Cylvick thought the proposed tiers were logical and made sense; and it had basis. He stated that if Mountain Regional increases the cost to purchase water, then the tiers would be increased to match that cost. Mr. Anderson understood that the tiers would all be at least as much as what they would pay Mountain Regional. Mr. Cylvick replied that it would be at least three times that amount for the 20,000-30,000 tier and increases as the tiers increase up to 10 times the amount. Mr. Cylvick stated that whenever they do a large rate increase, he likes the increase to last a long time. In his opinion, he believed this increase would last a long time.

Mr. LeCheminant asked if the pricing was based off the 2018 usage. He pointed out that the excess usage increase was not based on all 496 lots. Mr. Cylvick explained that he calculated the numbers by taking a snapshot of a person living in Stagecoach using 40,000 gallons, the existing fee schedule using 40,000 gallons, and the new fee schedule using 40,000 gallons. Mr. LeCheminant wanted to know if they calculated the 2018 usage under the new fee schedule whether they would meet budget. Mr. Cylvick replied that they would have $25,000 additional to fund other accounts. He pointed out that money from water connections and annexations would be in addition to the $25,000. Currently, they were budgeting a loss of $50,000. Mr. LeCheminant was not opposed to the proposed tiers as long as it covers the budget. Mr. Cylvick clarified that based on previous year's numbers, everyone would get a 25% increase. The tiers would generate 25% more income, and the base rate would be increased by 25%.

Mr. Anderson thought it was important for the Board to feel comfortable about covering the budget, and at the same time hold down the increase as much as possible. He suggested a yearly increase based on the CPI index, because the CPI varies. People would know to expect an increase every year based on the operating costs. Mr. LeCheminant noted that when they previously increased the tiers they also increased the rate and the gallon usage. Mr. Cylvick agreed. They increased from 10,000 gallons to 15,000 gallons, and then 15,000 to 20,000 gallons as the base usage. However, they reached the point where that was counter-productive because those who only come up on weekends were not all using 20,000 gallons and some complained that they were paying for gallons they do not use. Mr. Cylvick understood the complaint, but it is difficult because many weekenders or part-timers use 20,000 gallons and more.

Mr. Cylvick explained that when he calculated the price per gallon, he did not look at the person who uses 6,000 gallons in an entire year. His calculation was based on the price per gallon by dividing 20,000 gallons by the $832 base rate. It was impossible to figure out who was using more and who was using less, so everything was based on 20,000 gallons. Mr. Cylvick stated that he, Carol, and Brody had gone through several iterations before he decided on the one presented this evening. He had to go back to the old philosophy that the standby and the base rate pay for the water system. The tiers for additional usage is a quasi-penalty to encourage people to use less; but it is also additional income.

Carol reported that in 2016 the Legislature passed a bill requiring all water companies, including Pine Meadow Mutual Water Company, to change to an increasing rate structure for culinary water to put a value on the water. The more water used is depleting a resource, and that is the value. That is the reason for having tiers. It is called the Water System Conservation Pricing bill.

Mr. Cylvick believed what he was proposing is a nice balance because it allows a young family of four to live on the Ranch year-round and afford to pay for water.

Mr. Cylvick was prepared to make a motion for Carol to write up the proposed rates and send a letter to the shareholder with the voting materials.

Mr. Anderson asked if it was possible to lower the standby rate from $770 to $750. Carol stated that every owner pays the standby rate of $616. The difference in the rate pays for everything else. If they adjust the standby rate, it adjusts the other rates. Mr.

Anderson thought they could also lower the metered rate. He pointed out that they lowered the budget $30,000 by removing the connection fees. He asked if they could reduce the rates to reflect the budget reduction. Mr. Anderson was not opposed to what was being proposed if the Board did not want to consider his suggested reduction. However, would like to increase the rates each year according to inflation to make sure they do not lose money. Mr. Cylvick thought it was better to show that they were increasing the standby and the metered rate by 25% and changing the tier structure to achieve 25% more income from the tiers. It would be a 25% increase across the board.

Mr. LeCheminant supported Mr. Cylvick's proposal. Mr. Cylvick thought it was important for Mr. Anderson to feel comfortable about it because he is not a full-timer like he and Mr. LeCheminant. Mr. Anderson stated that he was not concerned about himself. He was concerned about the lot owners on a fixed income, because what might seem like a reasonable amount to the Board is a large amount to someone else. Carol agreed, which is why paying monthly is more palatable for some lot owners. Mr. Anderson was willing to support the proposed rate structure.

Mr. LeCheminant suggested that when Carol sends a notice to the shareholders, she should ask if they would rather pay monthly or yearly.

MOTION: Eric Cylvick moved to propose a 25% increase on the standby rate, a 25% increase on the base rate, and 25% throughout the tiers in such a fashion that the tiers are structured such that usage of 20,000-30,000 gallons is $33/1,000 gallons; 30,000-40,000 gallons is $44/$1,000; 40,000-50,000 gallons is $55/1,000 gallons; 50,000-60,000 gallons is $66/1,000 gallons; 60,000-70,000 gallons is $77/1,000; 70,000-80,000 gallons is $88/1,000; 80,000-90,000 gallons is $99/1,000; and 90,000-100,000 gallons is $110/1,000 gallons. Tom LeCheminant seconded the motion.

VOTE: The motion passed unanimously.

Mr. Cylvick stated that after Carol writes the letter to the shareholders, the Board should review it before it is mailed to make sure they are all in agreement.

Carol noted that Steve Anderson and Duane Yamashiro were up for re-election. Mr. Cylvick asked if he was up for re-election. Carol would contact anyone who was running for election a week before she needs their bio. Mr. Cylvick stated that if he was running Carol could use his previous bio.

Mr. Brody reported that he and Trevor had audited the water system and they were only losing 5 gallons per minute out of the entire water system.

Carol reported that the next meeting was the Annual Meeting on November 8th. She would be sending materials for the Annual Meeting with the letter. Mr. Cylvick suggested holding the meeting on the Ranch. He anticipated a large crowd because of the proposed rate increase and the room at the Kimball Library is quite small. Another option would be to rent the fire station in Wanship. Carol noted that she had already sent out the first notice for the Annual Meeting with the location. She was concerned about changing the location at this point. The Board decided to keep the meeting at the original location.

The Regular meeting of the Pine Meadow Mutual Water Company Board of Trustees adjourned at 8:15 p.m.

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Minutes Approved

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Date