Approved
November 8, 2018
as written

PINE MEADOW MUTUAL WATER COMPANY

BOARD OF TRUSTEES MEETING

THURSDAY, SEPTEMBER 13, 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

Eric Cylvick called the meeting to order at 6:39 p.m.

Unpaid Bills

Brody Blonquist reviewed the unpaid bills. Chem-Tech Ford was for lead, copper and nitrate samples. KGC Associates was Carol's services. Mountainland Supply were parts for meter installations. 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. TD6S was for a network engineer to clean up the computers. USA Bluebook was still showing a credit for the returned tank transducer. Utah Broadband was Internet for the shop. Utah State Division of Finance were the two loans. The State Tax Commission were vehicle registrations. Verizon wireless were the cell phones.

MOTION: Eric Cylvick moved to Approve the unpaid bills dated September 12, 2018. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

Mr. Anderson asked if the TD6S charges went under the IT line item. Carol replied that it was for the computers and it was shown as a computer expense.

Carol responded to a question Mr. Anderson had raised at the last meeting regarding depreciation. She explained that depreciation is calculated once a year. If the depreciation amount is significantly increased, it is due to the water system. Carol noted that a small amount goes towards the truck and other assets. The water system is a major asset and it is depreciated over the 30-year loan.

Financials

The Board reviewed the Profit and Loss/Budget versus Actual.

Mr. Anderson wanted to know the difference between meals and entertainment under miscellaneous; and travel entertainment. Carol replied that there was no difference. They used to be separate but in a meeting with Brody and Trevor the decision was made to put it all together because it was the same. Carol pointed out that the majority of the meal expense were company parties. If Brody or Trevor take a volunteer or a helper to lunch, that is also included under meals. Mr. Anderson assumed that part of the expense was the meeting Brody and Trevor attend in St. George for the Rural Water certifications.

MOTION: Eric Cylvick moved to Approve the Profit and Loss/Budget versus Actual dated September 12, 2018. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

The Board reviewed the balance sheet.

MOTION: Steve Anderson moved to APPROVE the Balance Sheet dated September 12, 2018. Eric Cylvick seconded the motion.

VOTE: The motion passed unanimously.

Minutes

Mr. Cylvick noted that since he had not attended the last meeting he could not vote to approve the Minutes. Without his vote the Board lacked a quorum and the Minutes of August 9, 2018 were tabled to the next meeting.

Map

Carol presented a map which identified in purple 24 meters that were paid for but have not been installed. Mr. Anderson asked for the number of old meters that were never stubbed out again. Brody believed only four were showing on the map. Brody explained that some of the meters were paid for several years ago but they were never installed because they have to wait for the owners to mark where the meter should be located. In some cases, the owner does not know where they want the meter because they have not started building on the lot. Others try to get the meter installed as quickly as possible before there is an increase in the meter assessment.

Carol noted that water usage by gallons is based strictly on metered lots. At some point they need to add the 24 meters into that number. Brody asked if the number was based off of last year. Carol replied that it was for the current year. In looking at the base metered, 79% of total owners were paying in, and they were using 38% of the total. Carol pointed to Tier 1 and noted that the percentage had dropped dramatically to 8%. That means the owner had used enough water to cross over and be in the first tier. Mr. Anderson asked if the 8% was included in the 79%. Carol answered no. She explained that 79% was the base and she added the extra $100, which makes up the 8%. In addition to the 79%, 8% of the owners are paying an additional $100 total for being in Tier 1. Carol stated that Tier 2 was an additional $150.

Carol presented a spread sheet showing how all 8 tiers are calculated. Brody asked for the total number of gallons used. Carol replied that the number was 5,309,112 total gallons used from October 2017 to August 2018. Carol presented another map. The total owners were identified in blue. She noted that 370 owners are using 2,307,000. The base was paying $392,000 of the budget.

Brody thought the base should reflect everyone who has a connection because everyone pays the base rate. Carol clarified that her intent was to show the increments, because the table is set up in increments. Carol showed how the rate increases since 2000 to reach the current rate. Mr. Cylvick explained that in 2003 the Board decided on a higher rate increase rather than a special assessment to build up the legal reserve fund in anticipation of potential lawsuits. When the money remained in the bank they were able to borrow money to update the water system. Mr. Cylvick pointed out that all the shareholders were given a survey card asking whether they preferred a special assessment or a rate increase. Overwhelmingly, the members wanted an incremental increase rather than a special assessment. When the money was not spent on lawsuits and it accumulated as savings, Mr. Cylvick started the process with the State Division of Drinking Water to borrow money to update the water system.

Mr. Cylvick noted that the last increase was four years ago. In 2014 the rate was increased from $712 to the current rate of $832. Over time, the base allotment has increased to the current 20,000 gallons on the premise that if people were paying more they should get more.

In looking at the sheet, Mr. Anderson pointed out that most people were not using all of the allotted gallons available. Brody stated that they hear that complaint all the time.

Mr. Anderson had prepared a budget of approximately $736,000. He asked if that was close to the number Carol and others had determined when preparing the budget. Carol replied that their budget was at $830,056. Mr. Anderson suggested that if they increase 3% on everything except the higher tiers and then raise those tiers significantly, it would result in $805,000 based on the anticipated use for the year. He noted that his budget amount was significantly lower than the $830,056 Carol had budgeted. He wanted to know how they reached that number. Brody replied that they started out with an $805,000 budget without making changes. Mr. Anderson pointed out that his budget did not include the capital reserve. Brody recalled adding attorney fees, reserves for Mountain Regional Water and other items. Mr. Anderson had added 10% for insurance costs and 5% for payroll costs. He increased everything else by 3%. Mr. Anderson remarked that the difference between absolute expenses and income he put into capital reserve.

Brody stated that connections nor annexations were added to the revenue. Carol clarified that they had not put in any revenue. They would address the revenue this evening. Carol remarked that they had budgeted the expenses at $830,056 based on their discussion.

Carol reported that the total revenue from the tiers currently would bring in approximately $114,000. Considering the $41,000 difference, the new revenue would be $788,000, which is still short of the $830,056 budget amount. Carol stated that they could either change the rates or change the tiers.

The Board discussed several scenarios for increasing the revenue. Brody wanted to know how much longer they needed to pay into the debt reserve fund for the loans. Carol explained that they needed to have a balance of $300,000. They were currently at $249,000. At $1800 per month they needed to pay into the fund for two more years. Brody asked if there was $50,000 left over from 2018 and if they could put that money into the debt reserve. They could then put the $1800 per month into the capital reserve fund. Carol offered to contact the State to see if a lump sum would satisfy the requirement. Carol preferred to move the account from the Bank and invest the money to earn investment interest.

The Board discussed increasing the dues. Mr. Anderson asked if they were on track to actually lose money this year. Carol replied that they always budget to lose, but the additional connection and meter installation income will exceed the loss. Mr. Anderson confirmed that if they have to raise the rate hypothetically 7% to break even, that would mean they were losing money this year; unless they were drawing from the connection fees to meet the total expenses. Mr. Cylvick replied that they were drawing from the connection fees. The purpose of this meeting was to create a budget that did not use the connection fees. They want to be able to put the connection fees into the capital reserve fund, and fund the debt and the capital reserve, and the legal fees out of the operating budget. Mr. Anderson believed a certain percentage of the connection assessment should go towards the meter and associated labor costs. The remainder should go towards the expansion of the system or additional use on the system, which would be held in the capital reserve. Brody explained that his concern was the liability of having enough money in the reserve account to install meters if all the 24 properties on the map come in at one time to hook-up. Those lots already paid for their connections and the Water Company would have to complete all of the installations out of the current budget. Brody doubted that all 24 would come in at once, but they needed to be prepared.

Carol stated that the Mountain Regional Water reserve was listed as the Capital Reserve. The goal set by the board was to have enough money in the reserve to purchase water in case of emergency. The Water Company wanted to have $100,000 saved. On the liability side on the balance under the category Mountain Regional Water source. They had $57,5000 to pay into their goal of $100,000. She noted that the goal could be changed at any time. Currently there was $48,789.66 in the capital reserve bank account. Carol explained how she had calculated the budgeted amount, and that it was set up as a liability until funded to pay off the liability.

Mr. Cylvick noted that they were close to meeting their Division of Drinking Water $300,000 debt reserve obligation. If they put that $1800 per month into the capital reserve fund, they would have $300,000 in the debt reserve and $100,000 for water emergency purposes.

Mr. Anderson remarked that with all of the tiers, they should at least be charging the amount needed to purchase water.

Mr. Cylvick stated that he has always had the mindset of being self-sufficient. Mr. Anderson was not opposed to that idea. Based on the income statement, he assumed they were banking water for less than 13 cents per gallon. He pointed out that if they had to purchase all the water, the budget would increase because they would still need to pay to maintain the system. The costs would be similar, except they would not be paying for electricity or maintenance on the wells.

Mr. Anderson requested to meet with Carol to review the budget and the revenue numbers. He thought the proposed budget might be too high.

Carol asked if the Board was comfortable with a 7% and levying the tiers as they are; or whether they wanted to look at the numbers if they changed the tiers. Mr. Anderson thought they should increase the tiers to at least the rate of inflation. Mr. Cylvick agreed. He thought it was fair that people who use in excess of the base rate should pay more. Carol referred to a table showing all the rates. She asked if they wanted to change the gallons per tier or just change the rate. Mr. Cylvick asked whether the tiers should be based on the cost to buy water. He believed there needed to be some logic for what the tiers mean. Mr. Anderson remarked that it is unknown at what point they would have to start buying water. Mr. Cylvick stated that if everyone pays the base rate, they could produce enough water to serve everyone at the base rate. Mr. Anderson questioned whether they knew that for certain. Mr. Cylvick felt certain that the water system could handle those who pay the base rate. Trevor believed they could produce 9.4 gallons per minute to meet that need.

Mr. Anderson remarked that those who live on the Ranch full-time uses the water prudently uses approximately 40,000 gallons. He thought they should increase the rates significantly for usage over 40,000 gallons, which is Tier 3, because it was more likely they would have to buy water at that point. Mr. Anderson thought they needed to plan for build-out to make sure they have enough water.

Mr. Cylvick reiterated the importance of having a concept of what they were trying to achieve. The Board discussed a number of scenarios and rate options. Mr. Cylvick clarified that he was trying to tie to the rates to the cost of buying water. Mr. Anderson believed the tiers were in place to discourage people from using excess water. Mr. Cylvick agreed, but he thought they needed some basis to justify the tiers and the rates. He believed the only justification was the cost to purchase water. Carol thought the first three tiers are the critical tiers.

Mr. Anderson stated that 800 gallons per day at 770 lots equaled 616,000 gallons per day, which is what the State would say they should be producing for their capacity. Mr. Anderson calculated that with the current production, if they make 12 million gallons per year divided by 770 lots, everyone would get 15,000 gallons per year. He believed they could justify an increase for any amount over 15,000 gallons per year based on the need to purchase water. Mr. Anderson noted that based on the current usage they could increase the base amount to 20,000 gallons; but at some point in the future they will have to purchase water to supply the residents. Mr. Anderson thought they should charge the first tier at least the amount needed to purchase water. Mr. Cylvick stated that he had doubled the rate for the first tier. They need to be able to tell the shareholders that the people who use the water are paying a lot more than what the people who use minimal amounts are paying. Brody noted that whenever they increase the rates, many people complain that they do not use their allotted 20,000 gallons and should not have to pay the same base rate as those who do.

Brody suggested that the Water Company could consider changing to a monthly billing and charge people based on their actual usage. Another option would be to bill quarterly.

In response to a question from Steve Anderson, Carol explained how she calculates the charges for each tier. Mr. Anderson asked what the standby cost would be with a 7% increase. Carol replied that the standby rate would be $659 per year. The metered rate would be $890 per year. At 39 cents per gallon, the first tier would be $195 above the base rate. The Board discussed various rate options. Mr. Anderson remarked that usage beyond 40,000 gallons, without external use, is more water than what anyone needs to use. Mr. Anderson thought most people would favor a monthly billing. Mr. LeCheminant stated that if the base usage was increased to 35,000 gallons at $85.00 per month, everyone would come out ahead. Trevor noted that some people do not use water and others use less than 1,000 gallons.

Mr. Anderson thought they needed to set the budget so the across the board rate is a fair amount to pay for expenses. The purchase of water is paid for by the tier structure. Brody thought the Board could increase the standby and allow each shareholder to decide whether they want to pay monthly or yearly. He noted that the property owner would not be billed monthly, but they would have the ability to pay for their usage each month. Those who prefer yearly would pay the flat rate for a specific number of gallons, plus the tier amount if they exceed the base allotment.

Mr. Anderson stated that another option would be to lower the base rate for everyone and then charge for the water used. In the end, they would still make $418,000 for the first 20,000 gallons. In that scenario, people who use the most water would pay a higher fee.

Mr. Anderson suggested that they look at the numbers using the same rates as Mountain Regional. Everyone pays a $90 monthly rate plus their monthly water usage based on a tier system. The first tier is 0-7500 gallons at $1.75 per 1,000 gallons. The second tier is 7501-30,000 gallons at $4.50 per 1,000 gallons. The third tier is 30,001-45,000 gallons at $5.00 per 1,000 gallons. The fourth tier is 45,001-60,000 gallons at $8.00 per 1,000 gallons. The fifth tier is 60,001-90,000 gallons at $12.00 per 1,000 gallons. The sixth tier is 90,001-120,000 at $15.00 per 1,000 gallons. The seventh tier 120,001-150,000 at $18.00 per 1,000 gallons. The next tier was usage above 150,000 at $21.00 per 1,000 gallons.

Using the Mountain Regional numbers, Carol calculated revenue from the base rate; and from the tiers. Mr. Anderson noted that Mountain Regional did not have a standby rate. Currently, the Water Company has 306 standbys that pay a rate of $616 for a total of $188,496. Mr. Anderson pointed out that using the Mountain Regional rates would result in $943,000.

Brody stated that he and Trevor read the meters the first of each month. He believed yearly billing was outdated. It is difficult to plan ahead to pay a water bill without knowing how much water will be used throughout the year. It is much easier to pay what you owe on a monthly basis.

Mr. LeCheminant liked the idea of a flat $90 per month. Mr. Anderson pointed out that $943,000 was too much revenue. He suggested calculating an $80 per month base rate. Mr. Cylvick referred to the tiers and noted that the cost of using 30,000 was over $2,000. Mr. Anderson agreed. They could not tell people that the rate will increase from $830 to $1,000 plus the cost of water usage. Mr. Anderson believed that the rate needed to be similar to the current rates plus a 5% increase. However, he thought it was a good idea to establish paying for water usage with a lower base rate.

Mr. Anderson asked Carol to calculate the numbers so the 30,000-gallon user would pay 5% more than what they paid this year. A 30,000-gallon user would pay $262 in excess water charges plus the base fee. Mr. LeCheminant stated that he would end up paying the same amount at the end of the year, but it would be paid monthly. He continually hears complaints from owners about not being able their pay their water bill monthly.

Mr. Cylvick thought the Board needed to determine the number they needed to meet the expenses. Carol replied that $830,000 was needed to meet the budget. The Board discussed various budget items. Brody suggested that they could show the capital reserve as zero income and the meter income as zero; which would reduce the $830,000 to $800,000. Carol recommended that they put the meter fees in escrow. Carol noted that there are 472 meters and 306 standbys.

Mr. Anderson stated that in looking at a bare bones budget, they could eliminate the $66,000 budgeted for system repairs, which would take the budget down to $740,000. The system repairs could then be paid out of the capital reserve. He recognized that it might not be best to do it the first year, but once they build up the capital reserve fund they could take system repairs out of the operating budget. Mr. Cylvick stated that he thinks of the capital reserve as an emergency fund. He explained that they were able to obtain the two loans because they had $400,000 in the bank, which is unique for a rural water company. Mr. Cylvick was not opposed to a monthly payment; however, they needed to raise $200,000 and monthly payments do not play into the equation. Mr. Cylvick calculated that 470 lots pay $832 for a total of $391,000. The 306 standby lots pay $616 for a total of $188,000. The metered and standby combined total $580,000. They need $800,000 to meet budget and pay into the capital reserve. If order to reach

$800,000 they would need an additional $220,000.

Mr. Anderson suggested that they could increase the standby assessment to $650 and the metered assessment to $870 for a base total of $608,000. The expenses are $798,000, which leaves a difference of $190,000.

Mr. Cylvick recalled that in 2008 and 2009 no one was building and they had no additional income from meter installs to put into the capital reserve. Mr. Cylvick stated that once they have $300,000 in the debt reserve account, they could start putting that $1800 per month into another capital reserve account. Brody pointed out that if they have a hard year, the $1800 could be reduced to $1200 if necessary. He noted that currently $1800 is required by the State for the debt reserve. Mr. Cylvick clarified that $22,281 would flow into the debt reserve for ten years; after which the $22,281 would flow into another capital reserve fund.

Mr. Cylvick understood from the discussion If they increase the rates by 8% every four years, it amounts to 2% each year, which would not even cover the cost increase of normal expenses. Mr. Anderson recommended that they increase the assessment by 6% this year, and keep increasing to keep up with the rate of inflation.

Mr. Anderson asked for the purpose of the capital reserve. Carol replied that the purpose of the capital reserve is to buy water. After further discussion, Mr. Cylvick recommended an 8% increase for standby, metered, and the tiered assessments. He believed they could justify an 8% increase based on 2% per year.

Mr. LeCheminant asked how much Carol's services would increase if they started billing monthly rather than yearly. Mr. Cylvick stated that those who wanted to pay monthly would not receive a monthly bill.

Mr. Cylvick reiterated his preference for an 8% increase across the Board; however, they did not need to make a final decision this evening. He suggested that Carol go back and double check the 8% on the tiers and review her math to make sure everything is correct. After doing that, she should email it to the Board before the next meeting. Mr. Cylvick believed 8% was completely justifiable because they need to take into consideration the potential for another downturn, and they have been responsible with the meter connection fees.

The Regular meeting of the Pine Meadow Mutual Water Company Board of Trustees adjourned at 9:10 p.m.

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Minutes Approved

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Date