

PINE MEADOW MUTUAL WATER COMPANY
BOARD OF TRUSTEES ANNUAL WATER MEETING
THURSDAY, NOVEMBER 8, 2018
KIMBALL JUNCTION LIBRARY
SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick, Steve Anderson, Tom LeCheminant, – Board Members. Duane Yamashiro arrived later in the meeting.

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

Excused: Scott Smith

Eric Cylvick opened the Annual Meeting at 6:30 p.m. He asked the Board Members present to introduce themselves and state their Lot number, whether they are full-time or part-time residents, and how long they have been on the Ranch.

Tom LeCheminant, PI-D-29, stated that he is the Vice-President on the HOA Board and he also sits on the Water Board. Eric Cylvick, Lot PI-E-51, stated that he has been on the Water Board since 2000 and became the Board President in 2001. He has been a full-time resident in Pine Meadow for 20 years. Steve Anderson, Lot PI-D-27, stated that he has been a part-time resident since 2015. He has been serving on the Water Board for two years.

Trevor Townsend stated that he has been the water system operator for 12-1/2 years. Brody Blonquist has been the water system manager for 17 years. Carol Steedman, stated that she manages the office as Administrative Secretary for 15 years.

Approval of 2017 Annual Meeting Minutes

The Minutes of the 2017 Annual Meeting had been posted on the website for nearly a year.

MOTION: Eric Cylvick moved to approve the 2017 Annual Meeting Minutes dated

Thursday, November 2, 2017 as written. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously.

Letter Regarding the Fee Structure

Mr. Cylvick commented on the letter that was sent to all the shareholders talking about the Fee Structure and the proposed rate increase. He understood there was some confusion in the letter regarding the example of a family or shareholder who uses 40,000 gallons of water and what that rate would be for usage. Mr. Cylvick clarified that they were not proposing to increase the 20,000-gallon amount. The base rate would include 20,000 gallons. However, they were proposing a 25% increase across the board on base metered, standby, and tiered rates.

Mr. Cylvick explained that three or four years ago, he secured a \$7 million loan from the State Division of Drinking Water because the water system needed to be improved, replaced, and updated. Every year the lines would freeze because they were buried 12" deep. In the Spring, they would spend approximately \$210,000 to rebury lines at the same 12" deep. It became obvious how much debt they could service with \$200,000 per year and they went through the process of obtaining a loan through the State Division of Drinking Water. Mr. Cylvick stated that because the Water Company had increased rates prior to requesting the loan, they had a good debt reserve and the Water Company was financially stable, which is unusual for a rural water company. For that reason, the DDW provided \$3.5 million in loan money at 3% interest for 20 years. Mr. Cylvick noted that the Master Plan had already been completed, and they used the loan money to start on capital projects.

Mr. Cylvick noted that the Master Plan was a 25-year plan. However, they realized that over 25 years the cost of construction would increase by 150% and they would not have enough money. Therefore, they borrowed the money and started the projects. It took six years to complete the upgrades, and in the meantime the Water Company secured another loan to finish out the Ranch. All of the work was based on a Master Plan that was prepared by Horrocks Engineering approximately 14 years ago. In 2012 the projects were completed and the loan money was spent. Mr. Cylvick remarked that the State typically requires all work to be completed in one year, but due to the nature of the water system and because they cannot work through the winter, the State allowed the Water Company to extend the work over a time period and only pay interest on the money that was borrowed for each phase. The State allowed the Water Company to complete the project in a cost-effective manner without having to work through the winter. By taking their time analyzing the system and improving certain sections, they

learned about the other sections and what needed to be done. It was a long process and everyone on the Ranch was very patient. The project was monumental but they saved millions of dollars by hiring their own crew. Trevor Townsend ran a trackhoe crew. At the same time, they subcontracted another company and both crews worked simultaneously. The amount of work that was done for the price paid was significant.

Mr. Cylvick provided a brief background of how he became a member of the Board of Directors in 2000 and the next year he was nominated for president. The Water Company has come a long way since then. The goal was always to move from a construction phase into a maintenance phase; and they are currently in the maintenance phase. Mr. Cylvick stated that in 2012 they finished with the loan money. Carol had done an excellent job of separating the loan money from the operating income and expenses. However, with \$7 million in loan money and continual projects, there was some crossover into the operating budget. When the loan money ran out and they were operating the water system as they do now, it was apparent that the Board needed to re-analyze the assessments and the cost to keep maintaining the water system.

Mr. Cylvick remarked that they had done a good job of budgeting the loan to get through the construction process. Unfortunately, four years into managing the maintenance phase of the Water Company the costs have increased tremendously. Mr. Cylvick reported that he had negotiated an easement agreement and an MOU (Mutual Agreement of Understanding) agreement with Mountain Regional to connect the Pine Meadow water system with the Mountain Regional water system. With part of the loan money, they paid to connect 1400 feet from A-plat and Pine Meadows to Stagecoach Estates. The Stagecoach Estates water system had been turned over to Mountain Regional. Mr. Cylvick explained that Pine Meadow Water can only produce 45 gallons per minutes with all of their sources. He felt it was necessary to physically connect the Pine Meadow water system to Mountain Regional in case the water sources were being depleted.

Gary Burch, Lot PI-61, stated that he moved from California last year and he was building a home on the Ranch. Mr. Burch understood that all the property owners are shareholders and have a share of the water; and he assumed that meant they were all owners of the Water Company. Mr. Burch stated that he has been told by several people that the Water Company collects snow for their water. He thought wells were the sole source of water. He had the impression that there was a finite amount of water and water could not be purchased from another source. After hearing Mr. Cylvick talk about Mountain Regional, it sounded like that was not the case. Mr. Cylvick explained that Pine Meadow Water could purchase endless amounts of water now that they were

connected to Mountain Regional.

Mr. Cylvick noted that the Water Company has wells; and they spent nearly \$1 million drilling other wells. Mr. Burch thought it would cost more to buy water from other sources as opposed to using the well water. Mr. Cylvick agreed that the cost was higher to purchase water; however, the assessments are factored into that cost. He had prepared a handout that compared Mountain Regional's fee structure. Mr. Cylvick stated that the Water Company could produce a certain amount of water at a 50% duty cycle. If the pumps are running 50% of the time, they could produce approximately 8 million gallons of water. Currently, the Ranch uses 5 million gallons. The Water Company prohibits any external use of water because there is not enough source.

Tom Deaver, Lot E-71-A, asked if the 8 million gallons was per month. Mr. Cylvick answered no. He explained that at 45 to 50 gallons per minute from all the sources, they could produce 18 million gallons per year at 100% duty cycle. However, that is impossible because they cannot run the pumps at 100%. Brody Blonquist noted that the numbers were based on two or three years of less significant snow pack than in previous years.

Mr. Cylvick stated that Uncle Tom's well, which is three or four miles up Pine Meadows Drive, is the main producer. Originally, it was drilled for oil and converted into a water well when the Pine Meadow community was first formed. The Water Company dug a well in lower Tollgate. An upper Tollgate well is near Moss' cabin. Mr. Cylvick remarked that the Water Company tried to drill a well at Contact just above Bobcat, but it came up dry. They tried to drill a well at Saltbox Circle and that also came up dry. The Water Company had hired a hydrogeologist to help locate a drilling location, and that site also came up dry.

Mr. Cylvick stated that currently they have the ability to provide water for everyone on the Ranch. They have it narrowed down to one to two gallon per minute leaks in 32 miles of water line, which is amazing efficiency in the water system. Mr. Cylvick remarked on the advantage of having Steve Anderson on the Board. He is a part-time resident but he is also a civil engineer specializing in water. Mr. Anderson believes they have a significant amount of storage, which is how they make up for the lack of source. They store 200,000 gallons at the top of Windy Circle, and 500,000 gallons at the top of Valley Vista Drive. The only captured snow melt is what goes through the ground and into their sources.

Mr. Cylvick stated that in his opinion, the Pine Meadow Water system is the best water system in North Summit and it is the safest water system. The water is tested monthly

to State Division of Drinking Water standards. It is officially a community water system. There are 32 miles of pipe and the lines are buried deep enough. It is one of the most sophisticated water systems in North Summit based on the telemetry system, the storage capacity, and the water lines that were installed in the last ten or 12 years.

Mr. Cylvick emphasized that while they have a great water system they do not have a lot of source. Connecting to Mountain Regional will provide an unlimited amount of water when they need to purchase water.

Grant Colley, Lot FM-C-79, stated that he did not know what a water assessment was and he asked for an explanation. Mr. Cylvick explained that there was a standby assessment rate for someone who does not have a meter or structure on their lot. A metered lot or base rate assessment is for someone who has a meter and/or a house on their lot. Mr. Anderson pointed out that an assessment is the same as a water bill.

Someone asked when the base usage was increased to 20,000 gallons. It was originally low to encourage people not to waste water. Mr. Cylvick recalled that ten years ago it was raised from 10,000 gallons to 15,000 gallons, and then from 15,000 to 20,000. It has stayed at 20,000 gallons.

Mr. Cylvick noted that Bill George and Cal Cragun were on the Board for more than a decade. Unfortunately, both have health issues that forced them to resign from the Water Company Board. They were both involved with the Water Company through the entire construction and loan phase. He thanked them for all the work they put into the Water Company when they were Board members.

Mr. Cylvick explained that when the base usage was increased ten years ago, Cal Cragun offered the idea that if they were going to raise rates they should offer people more water by increasing the base rate by 5,000 gallons. In response to a comment that the logic did not make sense because people who did not use 10,000 gallons were increased to 15,000. Mr. Cylvick remarked that many part-timers use more than 10,000 to 15,000 gallons.

Someone asked why the rate could not be based on per gallon usage. He never comes close to using his 20,000-gallon allotment and would prefer to pay only for what he uses. Mr. Cylvick stated that the Water Company was set up prior to his time on the Board. He explained that the Water Company was structured such that the base metered rate and the standby rate that everyone pays funds the Water Company. Brody Blonquist remarked that based on how the State of Utah Division of Drinking Water designs every water system and sets the fee schedule, everyone pays a meter

fee. He offered an example from Oakley City where \$70 per month is billed just for the meter on the property. After that, it is billed per gallon per every 1,000 gallons of water. Brody emphasized that any water system in the State of Utah charges a metered fee just to have a meter on the property. Mr. Anderson stated that every utility is set up to have the ability on-demand to connect into the service. People pay the same way for electric and gas service. Everyone participates in the network; but there is an additional user fee for those who use more than the standard rate.

The question was asked as to whether the base rate could be lowered to 10,000 gallons. Someone suggested another approach. If they were trying to discourage excess usage, people should be rewarded for using less water.

Jamie Madore, Lot PI-B-2, was unclear on the new base rate the Board was proposing. Mr. Cylvick replied that the new standby rate would be \$770. The metered base would be \$1,040 per year for 20,000 gallons.

In response to the question about rewarding people for less usage, Brody recalled that in 2005 the State of Utah Division of Drinking Water did studies throughout North America to figure out a way for people who use less to pay less. However, the problem is that once the owner is rewarded for using less, the Water Company loses the income that is used to operate the Water System. After a series of studies in various states, the answer was that everyone needs to pay the same to make a water system operate at its current expenses. Someone suggested that the Water Company could charge everyone the same meter fee and have a separate rate per usage rate.

Someone pointed out that Pine Meadow Ranch was not designed to be full-time residents for 800 people. Under the current and proposed plan, people are being told they can use as much water as they can afford. Considering the amount of building that is occurring on the Ranch, they will need more than one easement. It was noted that the current and proposed rates do not encourage people to use less water, but rather to sustain the water system.

Tom Deaver, Lot PI-E-71, stated that based on the comments, he did not believe everyone understood the term standby rate. Currently, the standby rate is \$616, which is each lot owners share of the cost to dig up 32 miles of road to put in all the lines and pressure regulators, all the pumps and the check valves. When those people want to sell their land, it will be valued higher because they are not selling dry land. The base rate services the loan. Mr. Deaver pointed out that the tier structure is punitive to encourage people to conserve water, particularly the overly excessive users. The proposed tier structure should be even more punitive.

Someone asked when they would be faced with another rate increase after this increase. Mr. Cylvick stated that the last rate increase was four years ago. He explained that the Water Company has a \$300,000 debt reserve fund that they are required to fund every month. At \$1800 per month the capital debt reserve is currently at \$250,000. The Water Company can use that money at any time. He had also set up a \$100,000 legal reserve fund and \$100,000 fund for purchasing water from Mountain Regional; and those are funded on an annual basis. Mr. Cylvick remarked that the Board was proposing to build up the capital reserve fund to have cash on hand in the event of an emergency. Once the debt reserve is fully funded, the \$1800 per month would go back into the water system operating budget. Mr. Cylvick stated that currently they have \$45,000 set aside to purchase water from Mountain Regional if it becomes necessary. He pointed out that at this point they have a credit since Pine Meadow Water supplies water to 12-15 Mountain Regional lots. Mountain Regional owes half a million gallons to Pine Meadow, and Pine Meadow banks the water. Mr. Cylvick stated that over the next couple of years, if the Board feels that the Reserve Funds and the Water Purchasing funds are sufficient, then money will go back into the operating budget of the water system. Mr. Cylvick was confident that they would not need to increase the rates for at least 5 years if not more.

Mr. Cylvick explained why the Board was proposing an increase at this time. In 2008 the economy was down and no one was building on the Ranch. At the time, the budget was set up so the money from water and meter hook-up fees was funding the operating budget, which was not consistent with State requirements. The State wants the money from building to go to the capital reserve fund and not the operating budget. The Board talked about restructuring the budget so money coming in from new construction would go into the capital reserve; but for several years beginning in 2008 no building occurred; therefore, the Water Company had reduced income. Mr. Cylvick assumed that at some point construction will slow down again and they need to sustain a water system with an operating budget that does not include building assessment fees.

Someone stated that he works in an industry where he is audited, but he never worries about audits because of his integrity. He wanted to know the last time the Water Company was audited and how frequently they are audited. Mr. Cylvick replied that the Water Company was audited in 2014 at the end of the loan. This person asked if the audit was made public, if copies were available, and when the next audit was scheduled. Based on Mr. Cylvick's comments, he understood that they were paying off the loan and paying the water managers to keep the water system running. As a shareholder, he wanted to know where there was accountability.

Another person asked why the Water Company is not audited every year. Mr. Cylvick replied that they could schedule a yearly audit if the shareholders were willing to pay for it. Mr. Cylvick stated that if they wanted accountability, they should come to the Water Board meetings that occur every month and listen to the volunteer Board who rebuilt the water system and turned it into the best water system in North Summit. If they want something done, the shareholders have the responsibility to come to a monthly Board meeting and voice their opinion.

Jamie Madore, Lot PI-B2, asked if the hookup fees would be increased. She was building and wanted to know whether she should expect to pay more to get a meter and hook-up to the system. Mr. Cylvick did not believe the Board had discussed or were proposing to increase those fees.

Someone asked Mr. Cylvick to explain how they reached the 25% number, and whether the increase was to fund the reserve account Mr. Cylvick had mentioned and not using the connection fees for the operating budget. Mr. Cylvick replied that 25% was to fund the Legal Reserve, the Capital Reserve, and the water purchasing fund. They looked at the budgeted versus actual for this year, for the income and for the expenses. The intent is to apply all hook-up fees to the capital reserve funds. A 25% increase is necessary to meet those calculations. The proposal is a 25% increase across the board for the standby, the metered, and the tiers.

Someone asked for the number of new building projects on the Ranch this year and last year. Brody replied that the Water Company had 16 new water letters this year for meter installs. The water letters are for people who currently do not have a meter on their property.

In response to a question regarding the budget, Mr. Cylvick referred to the 2018 budget and noted that the total income was budgeted at \$728,000. The expenses were budgeted at \$788,000. For 2019, with normal yearly increases, the budgeted income is \$841,000; and the expenses need to match that number. The Board looked at what it would take to meet the difference between \$728,000 and \$841,000 and determined a 25% rate increase. He noted that in the past they were counting the impact fee and the water hook-up fee income in the operating budget, which they are not supposed to do.

Tom Brace, Lot FM-B-23, asked if the Board had considered other options in addition to the proposal that was provided. He wanted to know if there was a backup plan if the shareholders reject this proposal. Mr. Cylvick stated that the Board looked at 10%, 15%, 20%, 25% and 30% increases. They also looked at a higher increase in the

tiered rates. Mr. Cylvick pointed out that they were proposing to change the tier structure at \$33, \$44, \$55/gallon, etc. It was based on their ability to buy water from Mountain Regional at \$11 per 1000 gallons. For every 10,000 gallons used, they contribute another 1,000 gallons. Mr. Brace asked if the tier structure was dictated by law or just the way the Water Company structures it. Mr. Cylvick replied that it was not random before, but it was not uniform either. It was based on revenue that could be generated, but there was no real rhyme or reason. Therefore, they based the proposed tier structure on the cost of buying water from Mountain Regional.

Mr. Anderson stated that they also looked at the meter readings over the last couple of years and tried to find a way to be fair to people who try to conserve, but punitive enough to make sure that water is not wasted by people who use water excessively without regard.

An owner of Lot C-85/C86, looking at the budget, asked why they were paying for people to go out to lunch. Brody replied that he and Trevor are required to be certified with the State of Utah through the Division of Drinking Water. The Water Company pays for the hotel and the conference. Brody and Trevor pay for their own food and fuel.

Someone remarked that the last year there was a big hurry to clean up EPA problems with the backflow water systems, but then suddenly it was no longer mentioned. She wanted to know how many outstanding backflows had not been checked. Brody replied that there were none after they completed the inspections. He was not aware if someone had put one in after the inspection was done. Trevor stated that he and Brody had inspected every meter connection on the Mountain. For lots with a meter but no house, they contacted those owners for specific information.

Mr. Cylvick remarked that Pine Meadow Water has the highest punitive rates in the State of Utah for using too much water. At the same time, the rate for 40,000 gallons is \$1,000 lower per year than what they pay in Stagecoach. Stagecoach Estates charges \$2800 per year for 40,000 gallons. With the proposed new rates, Pine Meadow Water will charge \$1800 for 40,000 gallons. The base rate for Mountain Regional is \$1,080 per year, which is higher than what Pine Meadow Water was proposing, and it does not provide any water allotment. The water is paid per gallon, billed separately at a specified rate. In addition, Mountain Regional charges \$150 per month for an infrastructure assessment.

Mr. Cylvick explained the arrangement he had negotiated with Mountain Regional. He noted that Mountain Regional has 12 lots at the top of Stagecoach that they could not

service with fire flow. Part of the agreement was that Pine Meadow Water would pay for the 1400' line and connect the lines. Mr. Cylvick also negotiated an easement agreement with Fred Bacon to cross his property to connect the lines. The easement agreement cost the Water Company \$25,000. A stipulation of the agreement is that Pine Meadow Water would back feed the 12 lots at Stagecoach. Pine Meadow has a meter on both sides and they record the amount of water that goes through those lots, and the Water Company banks that amount with Mountain Regional. Last year a fire hydrant blew and Pine Meadow lost all the water in the 500,000 tank. Mountain Regional is tied to the Pine Meadow telemetry system, and in the middle of the night they saw that the tanks were draining and contacted Brody. Brody and Trevor found the leak and as soon as the leak was fixed, Mountain Regional started pumping water from Kimball Junction at 500 gallons per minute. Pine Meadow water did not have to pay for it because they used their credit for already banked water. Mr. Cylvick clarified that unlike Stagecoach subdivision, Mountain Regional does not own Pine Meadow Mutual Water Company. The agreement keeps the Water Company private with a symbiotic relationship with Mountain Regional. He noted that the recorded agreement with Mountain Regional solves their water problem indefinitely.

Mike Olson, Lot B-17, noted that insurance companies are offering rebates for people who do not have accidents to encourage people to drive more carefully. He asked if it was possible to offer rebates to property owners who do not use anything near their water allotment. Mr. Cylvick stated that it is a water system so everyone pays the standby rate. Both the metered rate and the standby rate funds the Water Company. In terms of the tiers, very few people use more than the 20,000-gallon allotment because most people are extremely conservative with water.

In response to a question about the loan payoff, Mr. Cylvick stated that the goal is that in the next year or two they will be able to use the money that currently funds the debt reserve fund and the legal reserve fund, and put some of the money back into the capital reserve and use the rest to pay down the principal on the loan. If they can accelerate the payments, he believed it could be paid off in 10 to 15 years. Mr. Cylvick remarked that they were anxious to pay off the loan because in 10 to 15 years the current system will be 30 years old and it will be time to start the process again. The project could be done at a slower pace; however, the Water Company will still have to borrow money for the upgrades.

Someone asked Mr. Cylvick to explain the legal reserve for special contracts that was mentioned in the letter. Mr. Cylvick stated that the Water Company has not been in any significant lawsuits in 18 years; however, they have gone slow in terms of taking legal action against people. In the beginning only 75% of the shareholders were paying their

assessments. A significant number did not pay and the Water Company did not have enough money to fight a legal battle or the means to foreclose on water shares. Mr. Cylvick explained that when the rates were raised the Water Company had extra money and they began foreclosing on the water share of a delinquent lot. It was recorded with Summit County and the meter was pulled from the property. The \$100,000 is a contingency legal reserve fund. No legal action was pending.

Bill Benelli, Lot PI-E-85, stated that he thanks the Board, Brody and Trevor every time he turns on the faucet. He understood the concerns of the people who have been hooked up to the system for 15 years and never use water, but they also needed to understand that their property value is significantly higher than it was when they purchased it. He also understood the frustration of those who pay for 20,000 gallons and only use 10,000 gallons; and why they would request an allotment of 10,000 gallons minimum.

Mr. Cylvick stated that before he came on the Board, per the Bylaws and Rules and Regulations, at some point Pine Meadow was required to become a community water system. That meant burying all the lines 6-8' deep and improving the water system. The State requires monthly bacterial testing. Someone wanted to know at what point the infrastructure becomes too small to handle the massive growth. Mr. Cylvick replied that there is enough storage, and the water lines are big enough and deep enough to support buildout. What they lacked were enough water shares to support full buildout. The State gave Pine Meadow Water reduced requirements because they do not allow anyone on the Ranch to use drinking water for lawns or landscaping. They use less water than almost anyone in the State. Mr. Cylvick remarked that they still do not have enough water shares. The problem is only being able to pump 45 gallons per minute out of the wells. In response to a question of when they would limit the number of people building on the Mountain, Mr. Cylvick replied that it is against the law to prohibit property owners from building on their property. He thought those types of comments were more appropriate for an HOA meeting.

Mr. Cylvick stated that he was trying to run a water company as efficiently as possible and he believed the Board had done a good job. He invited everyone to attend the monthly Board meetings. If the majority feel that the Water Company should be audited annually, he was not opposed to doing that but the expense would have to be factored into the budget.

Someone expressed concern with the sizes of the homes being built. He understood that the HOA has talked about short-term rentals. He lives close to the party house rental where there are up to 40 people at one time. He was recently certified to do perk

tests and septic designs. He knows for a fact that they were overusing the septic system on that property to the point of potentially polluting everything below it. Mr. Cylvick reiterated his comment that these were issues for an HOA meeting.

The comment was made that every property owner owns a share of the Water Company, and by law, the Water Company is required to provide them with water. He believed the Board was finding a way to afford to provide water service to the owners of the company.

Mr. Cylvick assumed that everyone had reviewed the Profit and Loss/Budget versus Actual, they had read through the 2019 Budget, and they understood the 25% increase on the tiers, the metered rate, and the standby rate. He pointed out the numbers of hours that were spent working out the analytics, but if the shareholders did not agree, they did not have to accept it.

MOTION: Eric Cylvick made a motion to APPROVE the 2019 Budget as proposed in the packet for this meeting. Grant Colley, Lot FM-C-79 seconded the motion.

VOTE: The motion passed.

Someone asked how many people knew about the rate increase sooner than 2 days earlier. Carol replied that the letter was sent out a month ago. It was also posted online.

MOTION: Eric Cylvick made a motion to APPROVE increasing the fine for all forms of theft of water to \$2500. Duane Yamashiro seconded the motion.

VOTE: The motion passed.

MOTION: Eric Cylvick made a motion to APPROVE the increase the Annexation Assessment by one standby assessment. Duane Yamashiro seconded the motion.

VOTE: The motion passed.

The Annual meeting of the Pine Meadow Mutual Water Company adjourned at 8:10 p.m.

Minutes Approved

Date

Following the Annual Meeting the Board held a short meeting to take care of regular monthly business.