

PINE MEADOW MUTUAL WATER COMPANY

BOARD OF TRUSTEES ANNUAL WATER MEETING
THURSDAY, OCTOBER 14, 2021
1567 W ARAPAHO DR
SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick, Scott Smith, George Sears – Board Members. Steve Anderson participated by phone. Scott Smith arrived later in the meeting.

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

Excused Board Members: Duane Yamashiro, Steve Anderson, Shaun Baker.

Guests: Larry Wood, PI-28; Gianni Donati, FM-D-87B and FM-D 98; Paul Sutor, PI-D-27; Andrew Pagel, PI-4

Eric Cylvick opened the Annual Meeting at 6:30 p.m.

Mr. Cylvick stated that he had contacted Duane Yamashiro to see if he was willing to vote for George Sears as a voting member on the Water Board to replace Paul Sutor. Mr. Yamashiro had said yes. Mr. Cylvick phoned Scott Smith and Steve Anderson for their vote and both voted in favor of having George Sears as a voting member on the Water Board. Mr. Cylvick also voted yes. The Board had enough votes as a quorum to bring George Sears onto the Board as a voting member.

Approval of 2020 Annual Meeting Minutes

MOTION: Eric Cylvick moved to approve the 2020 Annual Meeting Minutes dated Thursday, November 5, 2020, as written. Larry Wood, PI-28 seconded the motion.

VOTE: The motion passed unanimously.

Approval of Financial Report and 2022 Budget

Mr. Cylvick reported that Carol had drafted a budget and the Board reviewed it last week and made a few changes.

Mr. Cylvick noted that the Water Company was at 98.1% of collecting the water assessment. They had budgeted \$835,010 and they were currently at \$814,000.

Mr. Cylvick stated that a number of years ago the Board quit using annexation and water

hookup fees for operational expenses. Those funds go into a capital reserve fund. The Water Company only uses total water assessments to fund operations. He noted that approximately \$80,000 was received this year from annexation and hookup fees, and that money is not used as operational income.

Mr. Cylvick noted that the 2022 Budget matches the numbers from the 2021 budget in a lot of area. He stated that the \$200,000 Mountain Regional annexation fee shown on Page 2 is the Annexation Administration Fee. The fee does not include physical improvements to the water system. Mr. Cylvick stated that Mountain Regional estimated between \$200,000 and \$350,000 to do the design review, which includes legal and engineering costs, all the paperwork, and all the people involved. He remarked that the Water Company has the ability to pick and choose how much out-of-pocket they want to pay for the Annexation Administration Fee. Mr. Cylvick explained that he had Carol budget \$200,000 and if the cost ends up being higher, they can roll the additional money into the debt that the Water Company can carry and amortize out for 30 years.

Mr. Cylvick reported that the Water Company had approximately \$670,000 in the bank for operating expenses. An additional \$94,000 was set aside for purchasing water from Mountain Regional. If the annexation fee is higher than \$200,000, they can choose to either pay the entire amount or amortize it out with the debt and use the cash on hand to pay down the principle on the debt.

Mr. Cylvick noted that Page 5 was showing a loss of \$125,000 for this year. Last year they showed a loss of \$80,000; however, in 2020 they ended up with a surplus of \$239,000. Mr. Cylvick explained that they generally budget a loss and annexation fees and water hookup fees put them well over what was budgeted.

Regarding the debt, Mr. Cylvick stated that the Water Company originally borrowed \$6,770,000 from the Division of Drinking Water. Currently, they have paid down \$2.1 million of that amount. There is approximately \$4.7 million left on the note. That amount is spread out over 800 shareholders. In addition, they have \$319,000 that was escrowed out as a payment guarantee for the loan. Every month the Water Company put away \$1800 a month into the escrow account since they obtained the loans. Now that they have reached \$319,000, they no longer need to fund the escrow account. Mr. Cylvick stated that the Board has discussed putting the \$1800 towards paying down the principle on the loan. The result would be a savings of approximately \$340,000 in interest.

Steve Anderson thought they had paid for the meters and questioned why they were still showing as a liability on Page 3 of the balance sheet. Carol explained that the account he was

referring to is escrow holding damage bonds. The amount showing is the \$2500 they need to charge each customer when the meters are installed to cover the cost if any damages occur. Mr. Cylvick pointed out that it was for new connections and not the new cellular meters. The money is refunded to the customer if no damage is done during installation.

MOTION: Eric Cylvick moved to APPROVE the 2022 Budget as presented. Steve Anderson seconded the motion.

VOTE: The motion passed unanimously. Scott Smith was not present for the vote.

The Board reviewed the balance sheet. Mr. Cylvick noted that the Treasury Stock are lots the Water Company foreclosed on. The properties on Page 2 are the lots owned by the Water Company. Mr. Anderson asked about Lot PI-D-24 on page 4. Carol replied that PI-D-24 is a combined lot.

George Sears asked about the accumulated depreciation of assets. Carol stated that in 2020, the accumulated depreciation was \$4.7 million. As of October 2021, it is \$5.1 million. Mr. Sears understood that it was the broader depreciation on a total basis rather than calling it out by individual line items. Therefore, if one piece of equipment is another year older it does not depreciate in and of itself. Carol replied that he was correct.

Andrew Pagel, Lot PI-4, stated that since every expense does not have its own line item, he asked where the majority of the \$460,000 is spent. Carol believed it was for the water system. The machinery costs would be a very small amount. Mr. Pagel asked how much of the overall total valuation would be depreciated. Carol stated that it was \$5 million, which includes an insignificant amount for the machinery. Carol noted that the Water Company had paid down \$2.1 million on the loan. Mr. Cylvick stated that the started at \$6,770,000 and the current loan balance was \$4,673,000. Carol pointed out that the \$319,000 shown can only be used to pay down the loan. It is not part of funding for Mountain Regional or the debt reserve. That money is taken out of the operating budget.

MOTION: Eric Cylvick moved to APPROVE the Balance Sheet 2020-2021 comparison as of October 13, 2021. George Sears seconded the motion. Scott Smith was not present for the vote.

VOTE: The motion passed unanimously.

MOTION: Eric Cylvick moved to increase the Annexation Fee by one Standby Fee, which is done every year based on the Rules and Regulations of the Water Company. George Sears seconded the motion.

VOTE: The motion passed unanimously. Scott Smith was not present for the vote.

Larry Wood left the meeting.

Carol reported that the \$94,000 in the Capital Reserve for Mountain Regional's water source. No action was required. However, it needs to be on the record because the Water Board needs to divulge to the shareholders the purpose of this particular fund. She noted that it is similar to an emergency fund. Mr. Cylvick explained that the Water Company set up a fund a few years ago to purchase water from Mountain Regional. It was funded at \$100,000 and it was currently at \$94,000.

Mr. Pagel understood that as of now they have not paid for water from Mountain Regional. Brody stated that they will pay for water on December 1st. They also paid for water last year. Currently, the amount owed is approximately \$18,000. Last year they paid \$37,000, which covered the cost over six years. Brody pointed out that the first three years of the six-year period Pine Meadow did not purchase water from Mountain Regional. Pine Meadow was providing the majority of water to the Stagecoach lots. After that, Pine Meadow had two or three major leaks and they started losing well production.

Scott Smith arrived.

Mr. Pagel noted that this year they were already at 50% in one year which is where they were over three years. He asked if that was due to the drought and not being able to produce as much water. Brody replied that this year and last year are equivalent in terms of number of gallons purchased from Mountain Regional. The \$37,000 paid last year included two additional years.

Brody remarked that every year they watch the wells and the usage and every year it gets worse. He expected to purchase more water from Mountain Regional this year compared to two or three years ago. The cost is based on the amount of water they need to purchase, and no one can predict the need from one year to the next.

Mr. Cylvick stated that the \$94,000 and the \$667,000 is Water Company money and they can use it to pay down the loan or cover an emergency with the water system. Mr. Sears understood that it is actually a reserve fund for emergency purposes. Mr. Cylvick clarified they only use that fund to pay Mountain Regional and then replenish the money that was pulled out. However, if they need to use that money for a major emergency, it can be used for that purpose. Mr. Cylvick also noted that the \$319,000 in escrow is also Water Company money and

the Division of Drinking Water will allow them to use it to pay down the principle. Carol clarified that she spoke with the Federal Finance people on Monday, and they confirmed that the \$319,000 will go directly to a principal payment when Summit County takes over and they need to pay off the debt. Steve Anderson assumed that Summit County would assume the loan. Mr. Cylvick answered yes. He was told that Summit County will pay down the debt and Pine Meadow will assume Summit County debt. Mr. Cylvick explained that the property owners would pay the normal Mountain Regional fee, plus a special assessment for the debt incurred for the loan.

Someone asked if all the assets the Water Company currently owns would be absorbed by Mountain Regional. Mr. Cylvick answered no. Mountain Regional would only take over the water system. He noted that discussions have been ongoing, and he speaks with Scott Morrison, the president of Mountain Regional nearly every week. Mr. Cylvick explained that initially Mountain Regional was going to treat Pine Meadow like any other shareholder; however, there is a 6" line connecting Mountain Regional and Pine Meadow, and in order to provide water at the same amount, they would need an 8" line. Mountain Regional has indicated that they may keep Pine Meadow as indoor use only water, which the Water Board favors. There would be no external water use and reduced requirements. Mr. Cylvick explained that they would have plenty of water to meet State requirements for indoor use, but they would keep the current CC&Rs and not allow any outdoor use. Mr. Cylvick supported indoor use only because Pine Meadow is one of the most conservation-based water companies in the State and he would like that to remain.

Mr. Cylvick stated that in their discussions with Mountain Regional there has been flexibility. Mountain Regional is willing to work with the Water Company because they are willing to accept lower standards than the rest of their customers. Mr. Cylvick pointed out that Mountain Regional water is not as expensive as Pine Meadow water, but it is still expensive and external use would be costly.

Brody emphasized that the current agreement with Mountain Regional is water system infrastructure. All the other assets will be retained by Pine Meadow and stay with the shareholders. Brody believed the property would go to Mountain Regional because they are used for source protection. He noted that the Water Company only pays \$1 per year in taxes on those properties because they are non-buildable source protection lots.

Mr. Pagel asked when Mr. Cylvick thought the final merger would occur. Mr. Cylvick stated that Mountain Regional indicated that it could be a year to 18 months from the time the Annexation Administration Agreement was signed. He clarified that the Annexation Administration Agreement only states that Pine Meadow Water Company will pay a certain fee for the

Mountain Regional attorneys, engineers, and personnel to analyze the water system. The Water Company will provide them with the master plan, all the as-built drawings, and other pertinent information. Mountain Regional will look at the water system to determine what, if anything, needs to be done or improved. Mountain Regional will write a report and sit down with Pine Meadow to decide what improvements need to be made, if any. Mr. Cylvick could not foresee many improvements being made. He thought Mountain Regional might require additional fire hydrants. Mr. Cylvick noted that the water system plans were designed, engineered, and stamped by a professional engineer and approved by the State Engineer. Some things were grandfathered in because it was done 20 years ago, and the requirements have changed. Mr. Cylvick emphasized that the Water Company operates under reduced requirements. The storage is big enough for build out and the right lines are in the ground. He recognized that Mountain Regional may come back with something they have not anticipated, and he reiterated that fire hydrants might be the biggest concern. Mr. Cylvick clarified that the \$200,000 shown could increase up to \$350,000. The fee is only to analyze the system and would not include the cost of any improvements.

Mr. Pagel understood that once the deal is finalized over the next year or so and Pine Meadow becomes part of Mountain Regional, the remaining loan balance would not be absorbed by Mountain Regional. Mr. Cylvick stated that the Mountain Regional will absorb the loan and make the Pine Meadow owners pay it as a special assessment. He clarified that Pine Meadow would still be responsible for the debt. Brody explained that the special assessment fee will be the same amount per month until the loan is paid off in addition to the monthly water use. Mr. Cylvick pointed out that if the remaining loan balance is amortized over 30 years at 3% interest rate among 800 shareholders, the monthly fee will not be significant.

Mr. Cylvick stated that once Mountain Regional completes their review of the water system, if they recommended improvements, the Water Company will have the opportunity to negotiate the improvements. At that point, they will have a better idea of cost and will be able to understand 100% what the debt load will be, as well as the monthly water bill. Once that information is established, Mr. Cylvick will share it with the shareholders.

Mr. Suitor clarified that annexation would not be a buy-out, and that Mountain Regional would only be taking over the water system. He noted that the shareholders own the pumps, but they would still be paying a pump fee. Brody stated that the reason is because 90% of the water will come from Mountain Regional. He was unsure whether Mountain Regional would even use those pumps. Mr. Cylvick thought the fee could potentially be negotiated. He believed that if they continue operating under reduced requirements it will give the Water Company more negotiating power regarding the existing infrastructure.

Mr. Cylvick reported that he has also been adamant about the annexation fee. He believed that once they become Mountain Regional everyone will want to connect to the water system. Mountain Regional does not have an annexation fee. Mr. Cylvick stated that he would like the ability to set the annexation fee in 2022, and if someone annexes into Mountain Regional through the Pine Meadow water system Pine Meadow would still collect the annexation fee and that money would go towards paying down the debt. He approached Mountain Regional with that idea, and they are open to negotiation.

Mr. Pagel asked if Mountain Regional is interested in keeping the Ranch wells running. Mr. Cylvick replied that Mountain Regional said no at first, but then said yes. He believed that decision will be made after Mountain Regional completes the study.

Mr. Suitor asked if once the debt is paid, whether the annexation fee would continue, and the current HOA shareholders would get a discount. Mr. Cylvick did not think Summit County would allow it. Mr. Sears pointed out that amortized over 30 years the monthly charge for the special assessment will not be a significant amount to the owners. Therefore, once the special assessment is paid, the reduction in their monthly billing would not be significant.

Elections

Mr. Cylvick reported that he and Duane Yamashiro were up for re-election. Paul Suitor was a candidate for a Board position. Shaun Baker was running as a part-time resident. He noted that voting was still open until October 22nd.

The Annual meeting of the Pine Meadow Mutual Water Company adjourned at 7:43 p.m.

Minutes Approved _____

Date _____