

PINE MEADOW MUTUAL WATER COMPANY

BOARD OF TRUSTEES MEETING

THURSDAY, NOVEMBER 6, 2008

PINE MEADOW RANCH

SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick, President; Eric Anderson; Vice President; Cal Cragun, Bill George, Brian Zelch - Board members

Dan Heath was excused.

Ex Officio: Brody Blonquist–Water System Manager; Trevor Townsend

Guests: Joe Rush, Lot PI-D-3,4,24,25 and Chris Bond, Lot G101

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

Minutes

MOTION: Cal Cragun moved to APPROVE the minutes of October 9, 2008 as written. Bill George seconded the motion.

VOTE: The motion passed unanimously.

Unpaid Bills

Brody Blonquist reviewed the unpaid bills. All West was for the internet. The majority of the bill from Capital One was for items from Staples. Other charges on the Capital One statement was for paint for the inside of the shop and Trend Micro, which is the computer security system at the office. The bill from Catapultion was for the internet. The bill from Chesley Electric was for work to rewire the pump houses. The bill from Delco Western was to repair a pump that went down on Tollgate Booster #2. The bill from Geary Construction was for the last of the sand and the road base on Forest Meadows and Arapaho. Brody was unsure about the bill from Haney and Company. Cal Cragun believed it was for the audit for the loan. Brody indicated a bill from Horrocks Engineers. The bill from KGC Associates, was Carol's services. He noted that Mountain States Water Works was still showing a credit. The bill from Ralph McCormick was for straw for the winter time. Revenue Recovery is the collection agency. Rocky Mountain power was the typical monthly bill. Brody assumed the bill from Summit County Treasurer was for property taxes. USA Blue Book was for fire hydrants repairs. Verizon

Wireless is for cell phones. Weller Recreation was for oil and filters for the Polaris Rangers.

MOTION: Eric Cylvick moved to APPROVE the unpaid bills dated November 6, 2008. Eric Anderson seconded the motion.

VOTE: The motion passed unanimously.

Public Input

Joe Rush apologized for a comment he had made when Eric Cylvick accused him of taking water.

Mr. Rush stated that he was trying to resolve the problem with the Board without involving attorneys. He had an attorney, who was also a shareholder, help him prepare a statement of what has transpired from day one. Mr. Rush distributed copies of his statement to the Board, along with supporting documents.

Mr. Cylvick asked what Mr. Rush was proposing this evening. Mr. Cylvick noted that the one-time reduction is based off of proving that the owner had a leak and the leak was repaired. In this case, Mr. Rush had a missing meter. Mr. Cylvick did not want to speculate what had happened, but they do have a meter reading that he and Mr. Blonquist felt was correct. Mr. Cylvick stated Lots PI-D-25, PI-D-24, PI-D-3, and PI-D-4 are not in the dispute; however Mr. Rush chose not to pay those charges. Mr. Rush remarked that he did not make the decision not to pay and he had proof indicating that he tried to submit checks that the Water Company returned. He provided copies of the envelope, the date on the envelope showing when it was returned, and the check that was returned. His attorney had the original documents.

Mr. Cylvick clarified that Mr. Rush was claiming that in 2004 he owed all the fees for PI-D-25, 24, 3 and 4. Based on that claim, Mr. Cylvick needed to go back and research the records. Mr. Rush remarked that he was not expecting retribution this evening. He only wanted to bring everyone up to date and provide more details of the circumstance. Mr. Cylvick stated that he needed to research why the check was returned in 2004.

Mr. Rush suggested that the Board members read through his letter and call him with questions. He wanted to keep communication with the Board ongoing and he was open to opinions or suggestions. In response to Mr. Cylvick's question, Mr. Rush clarified that he was not proposing anything this evening. He was frustrated with the situation and he wanted it clear that he never stopped paying and he had no intention of not paying. He pointed out that this began before Mr. Cylvick was president and the others were Board members. Mr. Rush stated that Karen McLaws was the only constant person through the whole matter. Mr. Cylvick noted that Karen has left but they have all the documentation. Mr. Rush asked Mr. Cylvick to reconsider what he had emailed. Mr. Cylvick offered to look into the matter further and contact Mr. Rush.

Mr. Rush and Chris Bond left the meeting.

The Board discussed the situation with Joe Rush and the documentation he had provided. Mr. Anderson understood that Mr. Rush tried to make contact with the Water Company, but he questioned why he would stop paying four years ago. It would seem that he would try to pay it again when he received his bill the following year. Mr. Blonquist recalled that when Mr. Rush was asked that question at the last meeting, he stated that he was advised not to pay. Mr. Blonquist pointed out that there is a two month difference between the date on the check and the date on the returned envelope. Mr. Anderson felt they needed to look at the back of the check or find the reason why it was sent back. It could have been for insufficient funds. He assumed that Karen had taken notes and Carol should have those notes in the file.

Mr. Cylvick stated that he was prepared to propose that Mr. Rush should have been paying on the lots that were not in dispute. They should make him pay those charges, as well as the finance and late charges. On the disputed lot, D-5, that was read at 100,000 gallons of water usage, he recalled that the Board had discussed granting the one-time reduction. He explained that the rules for the one-time reduction is that the property owner has to show the water manager that the leak exists and they need to show that the leak was repaired properly. After that, the Board can consider granting a one-time reduction, which usually calculates out to approximately a 50% reduction.

Mr. Anderson recalled that the last time Mr. Rush came to the Board he had cited a medical emergency with his daughter as the reason for resolving this matter immediately. At that time, Mr. Anderson proposed that the Board eliminate the finance charges and late fees if Mr. Rush would pay the balance in full on all of his accounts. He noted that everyone on the Board believed this issue needed to be addressed so his daughter could have her surgery. Mr. Anderson pointed out that Mr. Cylvick had looked in to the matter and expressed a valid point that because Mr. Rush had not paid on the lots that were not in dispute, the Board should not grant a reduction on those lots. Mr. Cylvick stated that he would research the documents and report back to the Board.

Manager's Report

Mr. Blonquist had additional unpaid bills to present. One was the last bill from Jed in the amount of \$26,247.50. He noted that Jed went over his contract balance by \$2,719. Dave told him that he would probably end up rolling over some of his truck, time since there was \$6500 left for truck time. Dave would talk to the State to see the best way to handle it. Mr. Cylvick clarified that once they pay the total amount Jed is done.

MOTION: Eric Cylvick made a motion to APPROVE the final payment for J.E. Excavation, Inc., for equipment and labor in the total amount of \$26,247.50 and the truck time for \$1,700. Bill George seconded the motion.

VOTE: The motion passed unanimously.

Mr. Blonquist referred to a change order he had requested from Chesley Electric. He had called Eric Cylvick to get the change order approved for \$1600.61. Mr. Blonquist had left the invoice in the office, but stated that he would scan the invoice and send it to Eric if the Board would approve it this evening. The change order was for the main breaker disconnect.

MOTION: Bill George made a motion to ACCEPT the change order from Chesley Electric in the amount of \$1600.61. Eric Cylvick seconded the motion.

VOTE: The motion passed unanimously.

Correspondence

Mr. Cylvick read a letter from Bill McBee, PI-C-12, requesting an appeal for a one-time reduction of his water assessment for 2007. He purchased a new cabin at 2242 South Pine Meadows Road in January 2007 and has continued to be a part time resident since that time, spending fifteen to twenty days at year at that residence. Mr. McBee stated that the water assessment for October 26th and 27th was \$2,959 with approximately 70,000 gallons used. Because his water usage is so minimal, this was very unexpected. Mr. McBee requested a second reading and asked that he pay the minimum usage assessment of \$491. Mr. McBee stated that he had contacted the builder to determine the water usage during the construction process and to split the assessment with them. The contractor stated that no water was used during October 2006 and 2007 while the cabin was being completed. Mr. McBee pointed out that the second reading, as well as the reading for the 2008 assessments was well under the minimum assessment, confirming that there is no water leakage. Mr. McBee thought a logical explanation would be that a significant amount of water was used during the time period that he did not own the cabin. For the above mentioned reasons, Mr. McBee petitioned for a one-time reduction in the water assessment.

Mr. Cylvick stated that Mr. McBee had not proved that there was a leak. Mr. Cragun asked if there was a possibility that the water was used by the previous owner, as Mr. McBee suggests. Mr. Blonquist pointed out that if Mr. McBee had purchased his cabin in January 2007, his bill would have been for the prior year when it was owned by the previous owners. Mr. Cylvick noted that typically the bill would be picked up on a title search, however, if he purchased the cabin before the bills were sent, it would not be reflected on the title.

Mr. Cragun suggested that the Board explain the terms of the one-time reduction to Mr. McBee and inform him that if he ever has a leak it could cost more than the reduction he would receive on this bill. Mr. Cragun stated Mr. McBee has recourse to go after the previous owner for an unpaid and would recommend that he do that rather than take the one-time reduction. Mr. Cylvick stated that he had spoken with the attorney and was advised that it is hard to collect on bills that the property owner did not incur. If Mr. McBee hired an attorney to dispute his responsibility, the Water Company would have no recourse. Mr. Cylvick preferred to give Mr. McBee the one-time reduction to avoid a potential legal battle.

Mr. Blonquist recalled that the terms of the one-time reduction includes water theft. Mr. Cylvick was unsure. Mr. Anderson thought Mr. McBee could have recourse with the title company since it is there responsibility to call Carol to inquire about recent statements or statements that might be coming.

Mr. Cylvick commented on the need to find out if the cabin was occupied prior to Mr. McBee or if the cabin was built for him. Mr. Blonquist stated that the cabin was built and then sold because he recalled seeing a realtor sign right after the cabin was built. Mr. Cylvick stated that he would advise Mr. McBee to seek recourse from the previous owner or the title company if the Board votes to grant the one-time reduction. Mr. Anderson worried that if they voted on the one-time reduction this evening they would be obligated to give it to Mr. McBee. Mr. Cylvick was comfortable giving him the reduction if he is the one who has to pay in full. If the title company pays, there would be no one-time reduction.

MOTION: Eric Cylvick made a motion that if the bill is paid under the title insurance, the title company would owe the Water Company \$2,959. If Mr. McBee has to pay the bill out of his pocket, the Board would grant him the one-time reduction. Bill George seconded the motion.

VOTE: The motion passed unanimously.

Financials

Mr. Cylvick reviewed a budget he had prepared instead of the report from Carol because he had made some changes. Mr. Cylvick noted that some of the budget numbers were based off the January 1, 2008 to October 2008 numbers. The column of numbers on the left of the sheet were only for ten months. When Carol printed up the budget and added the new numbers, it threw off some of his numbers and put them in the negative balance for net income.

Mr. Cylvick reviewed his spreadsheet and noted that he had put the rate increase at 28%. Changing that to 29% or 26% changes all the numbers. At 28% the metered assessment would go up to \$628.48, which is a \$137.48 increase over last year. The standby increase would go up to \$412.16 for a \$90 increase. Mr. Cylvick reviewed the graduated scale for water usage amounts. He had used 28% based on his assumptions in the budget. That number could easily be changed. Mr. Cylvick felt they should increase the base amount of water by 30% if they increase the rates by 28%. This would change the base amount from 11,500 gallons to 15,000 gallons. Mr. Cylvick noted that the total number of metered lots is 449 and they have collected on 427 lots. The total number of standby lots is 374 and they have collected from 394 lots. He noted that the 20 lot difference is a result of past dues that were paid.

Mr. Cylvick remarked that the \$268,078.14 number for the read water meter assessment for 2009 was based on 95% collection at the 28% increased rate. Mr. Cylvick re-

ferred to the standby water assessments and noted that he had based that number on 95% collection at the 28% increased rate. Mr. Cylvick had asked Carol to breakdown the assessments for the last four years so when money comes in it can be divided among all four years. Mr. Cylvick noted that they had missed three years of adding \$322 on to the annexation. The annexation fee was last changed in 2004. He explained how the annexation fee is calculated. He added the three years that were missed to the annexation fee and increased that amount by 28%. In addition to the annexation fee, he also increased the impact fee and the hookup fee by 28%.

Mr. Anderson asked if Mr. Cylvick could foresee an annexation. Mr. Cylvick knew of one person on Elk who was talking about annexing. He pointed out that the revenue projection did not reflect any money that is collected by the collection agency. Mr. Cragun reported that they have already received \$4,000 from collections and he expects to receive another \$17,000 within the next couple of weeks.

Mr. Cylvick noted that he had increased the rate for health insurance by 10% for Brody and Trevor. He had also included salaries and bonuses at \$124,500. He capped the electric bill at \$15,000. Mr. Cragun stated that he had asked Carol why the salaries for 2008 were lower than the budgeted amount for 2009. The reason is that one salary was reimbursed through the loan and since they no longer have the loan, that salary amount for the Water Company is higher. Mr. Cylvick explained that during the summer Trevor worked primarily on the water project and his salary was billed through the loan.

The Board discussed the budgeted amount paid to Carol as a subcontractor for secretarial services. Mr. Cylvick noted that Carol had one audit left for the loan. Once the loan is closed, she should not have to spend as much time on the Water Company and the amount paid should be less. Mr. Blonquist recalled a previous discussion about increasing the per diem rate for the Board members. Mr. Cylvick stated that he had left the per diem the same at \$25.

Mr. Cylvick stated that all the items that were in the black were transferred into the 2009 budget. He noted that water system repair and maintenance was in the red at \$12,000. He had budgeted \$2500 for the telemetry system in hopes they would not have to spend it. He noted that there were no line item expenses for 2008 because most of the work had gone towards the project. Mr. Cylvick had budgeted \$1,000 each for computer repairs and other repairs. These were items that were not previously budgeted.

Mr. Cylvick stated that he had budgeted heavy on some items but if they end the year in the black that money can go into the capital reserve fund.

Mr. Cylvick remarked that after they sell the trackhoe and put that money towards the principle on the loan, he believed they would still owe \$2.9 million. At 3% interest for 19 years he calculated the payment to be \$202,460.25 per year for principle and interest. Mr. Cylvick reviewed a spread sheet that Carol had prepared and that he had modified. He explained that the spread sheet identified the number of lot owners in 2008 and 2007, which indicated that they lost 2 lot owners through lot merges. The spread sheet

also compared the excess water usage in gallons and the amount collected. The percentage of total sales was 1.72% and the average price has been \$15.00 per 1000/ gallons. Mr. Cylvick suggested that they increase that amount to \$20.00 per 1000/ gallons to help recoup lost income when the base amount of water is increased from 11,500 to 15,000.

Mr. Cragun suggested a graduated rate for water use because under the current rate, the higher water users are being subsidized by the lower water users. Mr. Cylvick remarked that 79% are using 15,000 or less and 21% are using more. Of the total shareholders, both standby and metered, Of the 95 shareholders who use excess water, 12% of those are paying 21% of the total revenue coming in.

The Board discussed water rates. Mr. Cylvick had received the scale for what Mountain Regional charges as a comparison. They have different plans that start at \$55 per month for 5,000 gallons per month and go up from there.

Mr. Cragun asked if it was possible to offer options to those who find an increase a hardship. He suggested increasing 15% the first year and 15% the second year. Those people would pay 30% as a carrying charge instead of the 28%. Mr. Cylvick felt that would be a billing headache for Carol.

Mr. Cylvick pointed out that the last time they increased rates it was a significant increase. He noted that Stagecoach is redoing their water system and they special assessed everyone \$35,000. Mr. Cragun thought he should mention that fact at the annual meeting.

Mr. Cylvick asked if the Board member had received a copy of the newsletter article he had written. For the annual meeting he intended to go over the budget and review what they have accomplished line item by line item. He will explain why the Board feels it is necessary to increase the rates by 28%. Mr. Anderson suggested that Mr. Cylvick show the master plan and the time line that was originally proposed so the shareholders can see how much better off they are and how much money was actually saved. Mr. Cylvick noted that they were paying between \$45,000 and \$65,000 a year to repair frozen lines that had to be buried at the same depth. In addition, they were spending \$110,000 per year on projects.

Mr. Zelch thought that comparing dollar amounts would make a better point than talking about percentages. Mr. Cylvick agreed and offered to put some number together to show the comparisons at the annual meeting. He suggested that the Board vote on a rate increase this evening and explain themselves at the annual meeting.

Mr. Cylvick stated that one motion would be to approve the 28% increase and approve the budget as prepared. A second motion would be to increase the amount of water from 15,000 gallons to 20,000 gallons up to \$20/1000 gallons.

Mr. Anderson asked if there was any advantage for not raising the base amount of water.

Mr. Cylvick replied that it would not make much difference. Mr. Blonquist pointed out that when you raise rates it is important to give something to get something and all they can give is water. Mr. Cylvick felt that if they propose to raise the rates by 28% they should increase the amount of water provided. The Board agreed.

MOTION: Mr. Cylvick made a motion to approve the 2009 budget dated 11/6/08 for an increased rate on all accounts by 28%. This would be a 28% increase in the metered water assessments, standby water assessments, annexation fee, impact fee, and water hookup fee. The annexation fee would be increased by 3 years at \$322 per year plus the 28%.

MOTION: Mr. Cylvick made a motion to increase the amount to increase the excess water usage from 15,000 to 20,000 gallons and the cost from \$15 to \$20/1,000 gallons.

Mr. George seconded both motions.

VOTE: The motions passed unanimously.

Mr. Cylvick referred to a five page handout that Carol would put together for the annual meeting. He noted that Brian had suggested that the back page indicate that the Board has approved an increase in metered water assessments and include the amounts. He also congratulated everyone on a job well done and commended them for only having to raise the rates by \$11.00 per month.

The Regular meeting of the Pine Meadow Mutual Water Company Board of Trustees adjourned at 8:00 p.m.

Minutes Approved

Date