

PINE MEADOW MUTUAL WATER COMPANY

BOARD OF TRUSTEES MEETING

THURSDAY, AUGUST 25, 2011

SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick, Cal Cragun, Brian Zelch, Hutch Foster - Board members

Ex Officio: Brody Blonquist, Trevor Townsend, Carol Steedman

Guests: Dave Nichols.

President Eric Cylvick called the meeting to order at 6:32 p.m.

**Minutes – July 14, 2011**

MOTION: Cal Cragun made a motion to APPROVE the minutes of July 14, 2011 as written. Eric Cylvick seconded the motion.

VOTE: The motion passed unanimously.

Eric Cylvick stated that Dave Nichols had purchased Leon Gales house. Carol had provided a synopsis of what had transpired with Leon Gale. Mr. Cylvick explained that Mr. Gale always felt that he was tied to the original Deer Meadows development project. There was an easement agreement between the original owners of Mr. Gale's property and the Uncle Tom's well. Mr. Cylvick believed that Uncle Tom's well was drilled by Amoco. The well was drilled 10,000 feet deep for an oil well, and it was capped back to 3,000 feet and was turned from an oil well into a drinking water well. Mr. Cylvick stated that Mr. Gale thought he should be exempt from paying for water and so he never paid. Mr. Gale quit claim deeded the property to Doug McAllister and then wanted to settle with the Water Company. He had a \$12,000 water bill from water use that was read through the meter, plus annual assessments. Since Mr. Gale no longer owned the property, the Water Company settled on \$6,000.

Mr. Cylvick also stated that in the meantime, Doug McAllister hooked a garden hose onto the frost free and filled his pond. When that was discovered, Brody and Trevor pulled the meter and it has not been replaced.

Mr. Cylvick stated that in addition to Mr. Gale's property, Mr. Nichols also owns other

lots. Mr. Nichols stated that he has been a property owner for nearly 11 years. He has never over-used the water and always pays his bill. He purchased the property from Mr. McAllister on a short-sell and he was informed that he could hook-up to the existing connection. Mr. Nichols stated that he purchased the property in November and he has since dug a well that was inspected by Brody Blonquist and it is ready to go. Mr. Nichols has since learned that Mr. McAllister owes a \$7,000 water charge.

Mr. Cylvick believed the garden hose incident resulted in a \$7,000 charge. Mr. Nichols stated that he was willing to pay the amount Mr. McAllister owed to get the meter connected, and he was happy to sign any necessary legal agreements to make him the person obligated to pay the bill. Mr. Nichols was unsure why Mr. Gale had not paid his bill and he believed the Water Company was merciful in their settlement. He was before them this evening asking for consideration in his circumstance. Mr. Nichols stated that he would have done more due diligence if the short sale had not occurred so quickly and during the winter.

Mr. Cylvick explained that due to the Leon Gale matter, the Water Company's legal counsel has drawn up an annexation agreement for lots outside of the Ranch that want to tie into the Water Company. The annexation is calculated on the standby fee everyone paid throughout the years to the time of the annexation. Mr. Cylvick remarked that there were three fees; an annexation fee, a water hook-up fee, and a meter installation fee. The annexation is a blanket mutual agreement for any lot coming into the Ranch, and it requires an annexation fee, an impact fee and a meter fee. In addition, the annexed lot owner is required to join the Owners Association.

Mr. Cylvick stated that his personal opinion was to clear up everything and forget Deer Meadows and the problems with Leon Gale and Doug McCallister. He believed Mr. Nichols should pay the annexation fee in full, as any other outside the Ranch Boundary lot owner, and he would need to join the Homeowners Association. Mr. Cylvick was willing to waive the impact fee and the meter hook-up fee. Mr. Nichols would also be asked to pay for the new Smart meter. He would be charged \$600 for the meter and the \$15,311.30 annexation fee. The \$6,662.40 impact fee would be waived. He would be part of the Ranch with all the rights and obligations as the in-boundary Ranch owners.

Mr. Cylvick clarified that this was his personal opinion and he was interested in hearing from the Board. Mr. Cragun was comfortable with that offer. He did not believe Mr. Nichols should be penalized for the actions of Mr. Gale and Mr. McAllister. Brody pointed out that the annexation agreement dissolves any ties to the past and everything

starts new.

Mr. Nichols pointed out that the Water Board settled with Leon Gale for half of what he owed. He had hoped to be given at least that much consideration. Mr. Nichols requested that he only be charged the amount owed by Doug McAllister and the cost of the water meter. Mr. Cylvick clarified that the annexation fee was the legal fee to join the Water Company and did not include any penalty for past history. He noted that Carol could work out a payment schedule if Mr. Nichols was interested. Mr. Cylvick requested that Mr. Nichols make a decision prior to winter so Brody would be able to install the meter if he accepts their offer.

### **Unpaid Bills**

Brody reviewed the unpaid bills. Allwest Communication and Catapulsion were for the internet. The bill from Chem-Tech Ford showed a credit. Carol clarified that the credit resulted from an overpayment. The bill from Clyde, Snow and Sessions was for legal fees. Abco House of Hose was for new hoses for the PRVs, Horrocks Engineering was the retainer from the loan and additional bills that were incurred. KGC Associates was the bill for Carol's services. Mountain State Water Works still showed a credit. Regence Blue Cross was the health insurance. Rocky Mountain Power was the monthly bill. Select Health was health insurance. Sinclair Fleet was for fuel. Verizon Wireless was for cell phones.

Mr. Cylvick asked Carol about paying the bill from Horrocks. He thought the \$18,000 and \$16,000 charges were for new projects. Carol clarified that \$12,000 could be reimbursed from the new loan. The remainder was part of the \$28,000 that was pre-paid to the Water Company last year. Mr. Cylvick understood that the entire \$24,000 was eligible loan money from either the old loan or the new loan, and that nothing was paid from the Water Company account. Carol replied that this was correct.

MOTION: Eric Cylvick moved to pay the unpaid bills. Cal Cragun seconded the motion.

VOTE: The motion passed unanimously.

### **Financials**

The Board reviewed the profit and loss/budget versus actual. Mr. Cylvick noted that the total income was only \$3300 under what was budgeted.

Mr. Cragun referred to page 2 of the profit and loss under insurance, and asked if the numbers reflected the changes. Carol noted that the auto insurance was changed and the number shown was the new annual premium. She understood that the liability was paid in a prior year and would be due again next year.

Mr. Cylvick questioned the expense and income numbers in relation to what was budgeted. Carol explained that the budget should have been \$248,600 based on the loan documents. Mr. Cylvick stated that he had budgeted \$235,000 for 2011. Carol pointed out that it was per loan document, however, that was not the actual amount paid because the Water Company was paying principle early, which saved on the amount of interest paid. Because of the new loan, the terms were changed and they were extending to a 30 year term on the first and second loans, which brings the total amount of the loan to \$153,840 per year, principle and interest. Mr. Cylvick clarified that the amount was lower because they paid down the first loan and the remaining amount was being stretched over 30 years. The existing loan was being restructured. Carol noted that Loan #1 was sitting at \$3,041,000. Carol stated that \$90,000 paid was pure principle. At the loan closing, the Water Company would need to write a check for \$61,951.59 to close. She was holding \$30,000 in checks that would have been sent to the Division of Drinking Water to continue the old loan; however, now the \$30,000 would go towards the \$61,000 owed for interest.

Mr. Cylvick stated that the Board needed to know if the Water Company had enough money to pay the bills through 2011 and the bills for 2012. He suggested that the Board determine the total budget shortfall so they can forecast over the next five years and determine a rate increase.

Foster understood that Mr. Cylvick wanted a discussion on what projects should be done now that loan money was available, and how it would affect the current cash flow. Mr. Cylvick explained that the Water Company would keep both loans. The first loan would be refinanced on a 30 year note at 3%. The second loan would be similar to a credit line and interest would only be charged on the balance. That interest rate was also 3%.

The Board and Carol discussed loan payments and the principle and interest breakdown. Mr. Cylvick clarified that interest on \$153,840 would be \$45,000 for 2012. Carol pointed out that the Water Company needed to start paying this year in order to get the interest payment to \$45,000 next year. Therefore, they would have to add

\$3570 towards the \$12,820 for a total of \$15,000, which is the same payment they have been making all along. Mr. Cylvick stated that if they reach the full amount of the loan by October 1<sup>st</sup>, 2013, they would pay \$80,000 in interest. He asked if they would still be making interest only payments in 2014. Carol replied that they could elect to pay interest only up until June 2014, but she recommended that they begin paying the principle earlier than June 2014 to reduce the interest payment.

Mr. Cragun asked if they were paying the interest and principle on Loan 1, would the payment remain the same through the entire period, even though the principle would be shrinking. Carol answered yes. However, in 2013 when both loans start to become due, they have the option to re-amortize for a lower payment. Mr. Cragun agreed with Carol's suggestion to pay towards the principle of the interest only loan, which is Loan #2. He remarked that if the \$12,000 on Loan #1 would hold steady, they should take whatever they saved from reducing the principle, and pay that difference towards the principle on the new loan. Carol pointed out that there is a requirement to keep a Reserve Fund over a ten year period. Under the Restricted Funds on the Balance sheet it was shown as \$128,000. Carol stated that if they fund the \$124,000 they would only need to come up with \$191,000 over ten years, or \$1600 a month for ten years. Carol noted that the \$1600, which has never been budgeted, is an additional cost to every lot owner on the 800 lots at a \$2.00 increase per month. She remarked that the Restricted Fund Balance has never had a monthly budget. It has always been earmarked with other funds. She suggested that they separate it out to meet the requirement of the loan to avoid having an expensive Fidelity Bond. Mr. Cylvick wanted to know how much was currently in the bank to fund the reserve. Carol stated that there was \$226,000 total. They would need \$122,000 through the end of the year for operating expenses. Carol stated that if they pull \$124,000 for the reserve, they would start with a bank balance of \$74,000, which would result in an \$87,000 shortfall. They should be able to recoup that amount through the 2012 invoicing.

Carol remarked that if they hold off on the \$124,000 and save \$30,000, they would be at \$91,000, with a higher monthly reserve amount. Carol stated that they came in on budget, but they were nearly at 100% of budgeted income. She was only forecasting \$36,000 possible income coming in by the end of the year, without the annexation.

Carol calculated the numbers and stated that the Board would need to increase the rates by \$21.00 per month per lot, which was a significant increase of \$252 per year. Brian Zelch suggested a progressive rate increase. Mr. Cylvick remarked that the \$252 increase was calculated on the assumption of doing all four projects. He understood

that the \$252 per year increase would not cover the current shortfall of budget.

Mr. Zelch anticipated objections from the members on such a significant increase, even if it is progressive over three years.

Mr. Cylvick agreed that people would be unhappy, but the primary concern is adequate water source. The priority projects were to try and get water to I-Plat and decrease the pressure on Pine Meadows Drive, and the Tollgate well. He noted that Brody and Trevor believe that if they can lower the pressure to service I-Plat, redoing Pine Meadows Drive and looking at Oil Well would not be necessary at this point. The Board discussed costs for the priority projects. Brody reminded everyone that they still needed to install PRVs on Pine Meadow Drive and cut in for fire hydrants, which would add another \$40,000 to the total.

Mr. Zelch remarked that if they could reduce the borrowed amount on the loan, it would reduce the amount required at closing cost. Carol replied that the \$61,000 was on the first loan. However, the reserve would change and it could possibly be funded at a lower amount.

Mr. Cylvick stated that the point of the meeting was to discuss their best options for the loan. He thought they should take the full amount of the loan at \$3.1, but only focus on the Tollgate well and I-Plat. He anticipated only using approximately \$1.5 million, but if something unforeseen occurs they could borrow additional money to fix the problem. Mr. Cylvick suggested that they do the \$93,000 on the reserve rather than the \$124,000 because their plan may change.

Mr. Foster stated that because I-Plat and the Tollgate well were necessary projects, the issue was making the case to the shareholders rather than whether or not the projects should be done. He asked Carol to prepare cost comparisons between Mountain Regional, Park City Municipal, Stagecoach and other water systems at various usage levels that are typical on the Ranch. He thought the comparisons would be helpful when they approach the shareholders.

Brody felt the best way to sell the rate increase was to remind people that Pine Meadow went from a non-community to a community water system. Mr. Cylvick pointed out that based on a previous study, on average and overall, part-time owners use more water than the full-time residents.

Mr. Cragun concurred that they should initially borrow \$1.5 million and move ahead with the I-Plat project and the Tollgate well. Carol informed Mr. Cragun that he needed to be present at the loan closing.

Mr. Cylvick stated that he and Carol would work together on two scenarios. One scenario would be to do all the projects and use the entire loan. The second scenario would be to spend \$1.5 million on two projects and evaluate further when those projects are completed. In both scenarios he wanted to consider budget shortfall and the principle and interest payment on the loan amount.

Mr. Zelch favored taking the full loan amount and calculating a progressive rate increase over three years. The Board concurred.

Carol summarized the written resolution. Pine Meadow Mutual Water Company is a non-profit corporation. This was presented to the Board and the Board authorized the loan up to \$6,109,043. She noted that the rest of the resolution remained the same in terms of loan documents and accountability. The document was signed by the Board.

MOTION: Eric Cylvick moved to APPROVE the profit and loss and balance sheet. Brian Zelch seconded the motion.

VOTE: The motion passed unanimously.

### **Loan Business**

Mr. Cragun noted that he had let his notary license expire due to increased costs for renewal and testing. Mr. Cylvick noted that Mr. Cragun uses his notary quite often for the Water Company and he was willing to have the Water Company pay his renewal.

MOTION: Eric Cylvick made a motion to pay \$175 for fees and tests for Cal Cragun to retain his license. Brian Zelch.

VOTE: The motion passed unanimously.

MOTION: Eric Cylvick made a motion to restructure the restricted funds balance for debt service for \$93,150, to be funded at \$1875 per month for ten years. Brian Zelch seconded the motion.

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VOTE: The motion passed unanimously.

MOTION: Eric Cylvick made a motion to re-open the escrow account with Brighton Bank for debt payment. Cal Cragun seconded the motion.

VOTE: The motion passed unanimously.

MOTION: Eric Cylvick made a motion to open up a new trust account for the debt service at Brighton Bank beginning with \$93,150. Brian Zelch seconded the motion.

VOTE: The motion passed unanimously.

### **Miscellaneous Business**

Mr. Cylvick reported that Brody Blonquist was thinking about taking a part-time position with Oakley Water Company for approximately three days a month. He would be on standby to help with their sewer system. Mr. Cylvick was not opposed to Brody taking the position. The Board concurred.

Mr. Cylvick stated that Trevor and Brody had paid considerable of out-of-pocket expenses for health care. Mr. Cragun offered to research the insurance plan for better options.

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

Minutes Approved

Date

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